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The effect of welfare and labour market institutions on the labour market outcomes of immigrants in Europe

Volume 2: Articles

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Article 1: Institutions and structures as barriers? A comparison of native and immigrant unemployment durations across 12 European countries

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Abstract

This study investigates the effect of institutions on the unemployment-duration gap between non-EU immigrants and natives in 12 European countries. Further than the existing literature, we study unemployment duration distinguishing between exits to inactivity, primary and secondary employment. Additionally, we provide a stronger micro-foundation to the comparative literature by introducing institutional measures for unemployment-related benefits at the individual level rather than merely using aggregate proxies. Our analysis finds no disincentive effects of benefits for immigrants. Furthermore, the employment prospects of immigrants are better when the demand for low-skilled labour is high and immigration policy is labour market oriented. In contrast, employment protection legislation does not affect the unemployment duration of immigrants.

Keywords: immigrants, unemployment duration, welfare- and labour market institutions and structures

1. Introduction

During the last decades, Western Europe has become the destination for immigrants originating from all over the world. In most countries the labour market integration of these immigrants has proven problematic. A crucial indicator of the poor labour market integration is their relatively high unemployment rates that, at times, more than double that of native rates (OECD, 2008; see also Table 2 below). This large unemployment gap has caused political and public concern as it is assumed to challenge social cohesion and to undermine the sustainability of welfare states (Bask, 2005; Bergmark and Backman, 2004; Zimmermann, 1995). In some countries, benefits have also been accused of creating welfare dependency particularly for immigrants (Corrigan, 2010).

However, the immigrant-native unemployment gap varies across countries, largely following the pattern of the different types of welfare state. In particular, immigrants appear to have major difficulties in gaining a foothold on the Scandinavia and some Continental European labour markets whilst integration is less problematic in the rest of Europe, especially in the Anglo-Saxon and Southern European countries (OECD, 2008; see also Table 2 below).¹ An emerging body of comparative research tries to explain this by suggesting that: “... *immigration policy, labour market structure and regulations, and welfare regimes influence the basic mechanism of labour market allocation – that is, how these structural components shape employers’ and job seekers’ resources and preferences, which determine the way individuals are matched with jobs*” (Kogan, 2007: 183; for a theoretical overview see also Reitz, 1998).

Existing comparative studies on the nativity unemployment gap are scarce and typically rely on a single measure, either the unemployment rate at the macro level or unemployment incidence at the individual level. However, unemployment persistence or duration has rarely been used in the cross-country comparative literature (only Kogan (2004a) measures unemployment duration with monthly precession). It is more interesting to know how host country institutions or structures influence unemployment duration as long-term unemployment poses a greater threat to the labour market integration of immigrants than high incidence of unemployment because it is often associated with skills depreciation, worker discouragement and ultimately with stigma. Furthermore, information about unemployment duration or transitions provides insights to the

¹ It should be noted that the integration of immigrants in Scandinavia has improved during recent years possibly due to different types of integration measures.

mechanisms behind the large unemployment gap between immigrants and natives. Such precise information is crucial for policy makers who aim to improve the labour market integration of immigrants. Moreover, most studies ignore the fact that because immigrants are predominantly employed in low-skilled jobs, their inferior labour market integration may apply more to the quality of jobs than to their aggregate job-finding probability (Kogan, 2007). Transitions from unemployment to inactivity have also been neglected. Immigrants may be more affected by the ‘discouraged worker problem’ than natives, as they may simply stop searching for a job because of repeated refusals. This would lead to higher rates of ‘hidden’ unemployment for immigrants. Finally, previous research mainly relies on macro-level indicators when investigating institutional effects. The effect of economic incentives is typically measured by including welfare regime dummies (e.g. Fleischmann and Dronkers, 2010; Kogan, 2006), by comparing countries belonging to different types of welfare states (e.g. Kesler, 2006) or by an index for the generosity and duration of unemployment benefits (e.g. Reyneri and Fullin, 2011). This may be particularly problematic because a vast economic literature shows that disincentive effects of unemployment benefits are determined at the individual level and not at the country level (Mortensen, 1977; Holmlund, 1998). Moreover, these indexes are constructed to capture the aspects of welfare state policies for natives and therefore do not necessarily apply to immigrants. For this reason, even though this strand of research provides valuable nuances to the cross-national debate about the labour market integration of immigrants, its micro-foundation is somewhat less developed.

The aim of this study is to investigate the influence of host country features – unemployment benefits, immigration policy, employment protection legislation (EPL) and employment structure – on difference in unemployment duration between non-EU immigrants and natives in 12 European countries. In particular, we contrast two theoretical explanations about the effect of benefits. The first is an explanation that builds on the comparative theoretical framework and predicts that unemployment benefits create disincentives for immigrant employment (Kesler, 2006; Kogan, 2006; 2007). The second explanation suggests that there are no disincentive effects specific to immigrants and that access to benefits can even improve their labour market integration (see further discussion in section 2). Concerning the other three institutions/structures, we follow the theoretical approach of previous studies (Fleischmann and Dronkers, 2010; Kesler, 2006; Kogan, 2007; Reyneri and Fullin, 2011). More specifically, we expect that immigrants suffer from more persistent unemployment when the demand for low-skilled labour is low, the EPL is strict and

when the immigration policy has a humanitarian focus. Our analysis therefore extends the existing literature in three ways. Firstly, we provide a stronger micro-foundation to the comparative literature by introducing institutional measures for unemployment-related benefits at individual level rather than merely using aggregate proxies. Secondly, we focus on unemployment duration and not on unemployment incidence. Thirdly, we distinguish between transitions from unemployment into inactivity, the primary and secondary labour markets. The method we apply is a competing-risk event-history model using monthly data from the European Community Household Panel (ECHP).

The outline of the study is the following. Section 2 provides a review of the literature. The data and methodology are discussed in section 3. The results are presented in section 4. This section contain some descriptive figures where we contrast differences in the unemployment rates and average unemployment duration between immigrants and natives as well as the relationship between the nativity duration gap and our four institutional/structural variables. These descriptive statistics are followed by the results from the competing-risks event-history model. Section 5 presents the conclusions and recommendations for policy and future research.

2. Host country characteristics and immigrant unemployment

2.1 Unemployment benefits: disincentives effects or efficiency gains for immigrants?

From job search theory and a vast empirical literature, we know that benefits increase unemployment duration (Mortensen, 1977; Chetty, 2008; for an overview see Holmlund, 1998). In greater detail, benefits reduce search intensity and increase the reservation wage of the unemployed, which in turn makes them inclined to prolong their unemployment spell (Mortensen, 1977). According to Chetty (2008), this negative or moral hazard effect of benefits is larger for economically constrained individuals.

The comparative literature implicitly builds on this line of thought, but inflates it to macro-level and combines with the theory of welfare regimes put forward by Esping-Andersen (1990) (Kogan, 2006; 2007; Kesler, 2006). One of the major contributors is Kogan (2007) who suggests that the unemployment gap between immigrants and natives is smaller in countries where the

welfare system is meagre or discriminates against the foreign born (the Anglo-Saxon and Southern European welfare states). This is because the immigrants' initial labour market disadvantages (related to discrimination, lack of network, country specific human capital and knowledge about the labour market etc.) are likely to be offset by their relatively stronger work incentives in these countries or a lower reservation wage to use the terminology of job search theory (see also Mortensen, 1977).² In contrast, the unemployment gap is larger in the Scandinavian countries because their open and generous welfare states allow immigrants to sustain job search longer. According to Kogan (2007), immigrants are therefore also less likely to be pushed into the secondary labour market in Scandinavia, but can wait for a good job in the primary labour market (Kogan, 2006; 2007; Kesler, 2006). Following this idea, but applying it to individual level mechanisms rather than country level aggregates, immigrants who receive generous benefits should have an even lower chance than natives to receive a wage offer that exceeds their reservation wage. This is may be particularly relevant when we know that immigrants are more likely than natives to experience liquidity-constraints (e.g. Bauer, 2011). As a result and in line with the economic and comparative literature, (generous) benefits will delay transitions to employment more for immigrants than for natives (Hypothesis 1).

Nevertheless, benefits can also produce certain efficiency gains. From this perspective, unemployment related allowances first of all provide *financial resources* and hence create incentives to continue active job search (see e.g. Addison and Portugal, 2003; Rosholm and Vejlin, 2010). Secondly, providing financial resources to the unemployed may also indirectly improve their *personal resources* by (partly) preventing the decline in psychological wellbeing observed during unemployment (Ervasti and Venetoklis, 2010; Fryer, 1986; Goul Andersen, 2002; Leana and Feldman, 1990; Nordenmark et al., 2006; Whelan, 1992). This is crucial, when we know that psychological well-being is an important determinant for job search behaviour and subsequent employment outcomes (e.g. Meyers and Houssemand, 2010; Kanfer et al., 2001). Furthermore, welfare states that provide generous unemployment benefits are also more inclined to grant extra support (and monitoring) from public employment agents. Support in terms of job search assistance and contacts with employers increase the job offer arrival rate and transition to employment (Fougere et al., 2009; Van den Berg and Van der Klaauw, 2006). All in all, because immigrants on average face more severe employment barriers, these efficiency gains or 'resource effects' are

² The reservation wage refers to the lowest wage offer than unemployed will accept.

according to this alternative perspective likely to be stronger for immigrants than for natives and counterbalance or neutralise the negative effects expected in Hypothesis 1. Consequently, the impact of unemployment related benefits on transitions to employment (both primary and secondary) would be similar for immigrants and natives. Furthermore, if immigrants are more likely to become discouraged than natives due to the abovementioned disadvantages, the resources from benefits may be relatively more important for preventing that immigrants exit to inactivity (Hypothesis 2).

2.2 Labour market institutions and structures

Labour market institutions and structures are also likely to affect the unemployment-duration gap between immigrants and natives (e.g. Cohen and Kogan, 2007; Fleischmann and Dronkers, 2010; Kogan, 2006). The EPL affects the employers' hiring and firing costs and thus the wage offer distribution.³ Arguably, strict EPL makes employers screen job applicants more carefully in order to spot potential low-productive workers (Gangl, 2003; Giesecke and Groß, 2003; Kogan, 2007). In the absence of perfect information on worker productivity, employers may give preference to applicants from groups that are assumed to have a high average productivity. Using observed characteristics as proxies for productivity, employers apply 'statistical discrimination' against several groups such as females, young people and immigrants (Kogan, 2006; Phelps, 1972). This may increase their unemployment duration. In contrast, employers in flexible labour markets are assumed to be more prone to use a 'trial and error' strategy as a screening device (Giesecke and Groß, 2003). Therefore, immigrants should have more employment opportunities in flexible labour markets. However, strict EPL may also account for the higher ethnic occupational segregation in some countries (Kogan, 2007). If the EPL is strict, immigrants may increasingly be 'pushed' into the secondary labour market where the regulation tends to be more flexible than in the primary – even in otherwise strictly regulated labour markets (Kogan, 2007). Consequently, we therefore expect that strict EPL leads to longer unemployment duration for immigrants (especially when making the transition into the primary labour market) and increases transitions into inactivity (Hypothesis 3).

³ Here, we use the terminology of job search theory. This refers to the distribution of wages that are 'offered' to the unemployed.

Additionally, as there is less native competition and lower appreciation of human capital in the secondary labour market, immigrants should have better job opportunities in this sector (Piore, 1986; Kogan, 2007). The acceptance of poor jobs by immigrants is believed to be due to their ignorance about the host-country's labour market, their expectation of a temporary stay in Europe (Bonacich, 1972; Kogan 2004b; Piore, 1986) and the even poorer job quality in their country of origin (Piore, 1986). Consequently, previous research confirms that immigrants find jobs easier in labour markets with a high demand for low skilled labour (Kogan, 2006; Reyneri and Fullin, 2011). In line with this, we therefore anticipate that transitions to the secondary sector will increase with the demand for low-skilled labour (Hypothesis 4).

2.3 Immigration policy

Finally, immigration policy is also likely to affect the labour market integration of immigrants (Kogan, 2003; Lewin-Epstein et al., 2003). Asylum seekers and refugees are generally among the groups that experience the greatest difficulties in the labour market. This may be explained by the existence of mental and physical problems (see e.g. Kivling-Boden and Sundbom, 2001), but also the fact that many come from countries where transferability of human capital to a European context is more difficult. Following this line of reasoning, if immigration policy is strict and tailored to meet labour market needs, immigrants are easier to integrate. However, if immigration policy is strongly affected by humanitarian considerations giving preference to refugees and asylum seekers, the labour market integration of immigrants is expected to be poorer (see Kogan, 2007; Borjas, 1987; Chiswick, 1999). Consequently, we foresee that the more the immigration policy is influenced by humanitarian considerations, the longer is the unemployment duration of immigrants compared to the natives and the more likely they are to leave the labour force (Hypothesis 5).

3. Data and methodology

3.1 Data

In this study, we use the European Community Household Panel (ECHP), a high-quality standardized longitudinal household survey conducted in 15 European countries (EUROSTAT, 2003). The ECHP consists of 8 waves covering the years 1994-2001. The data provides extensive information on labour market status, job and demographic characteristics and offers retrospective monthly information for every year prior to the survey. This means that we have longitudinal information for 96 months. The latter feature makes ECHP particularly suitable for event-history analysis (see e.g. Tatsiramos, 2009).⁴

The analysis focuses on unemployed individuals from 18 to 65 years. Only 12 of the 15 ECHP countries are used in our analysis, as we had to exclude Ireland, the Netherlands and Sweden due to data limitations. In greater detail, following the principle of Pichler (2011), we left out Ireland due to a small immigrant sample. The Netherlands and Sweden were excluded because monthly employment information was unavailable. After deleting these countries, our sample includes 36.810 unemployment spells of which 1.458 refer to non-EU immigrants from non-Western countries.⁵

The definition of immigrant status is based on region of birth (Eastern Europe, Africa, Asia, and South America) rather than on citizenship.⁶ This definition is more comparable across countries since citizenship legislation differs considerably between European countries. We would have preferred an even more detailed distinction according to the country of birth as we acknowledge that characteristics of the country of origin and the conditions of migration are relevant for determining the immigrants' labour market outcomes (e.g. Van Tubergen et al., 2004); however, this information is unavailable.

⁴ Other studies on the outcomes of immigrants in Europe have also used the ECHP (e.g. Adsera and Chiswick, 2007; Buchel and Frick, 2005; Williams, 2011).

⁵ These unemployment spells refer to 21.325 individuals of whom 979 are non-EU immigrants. Sensitivity analysis indicates that the results are neither sensitive to the inclusion of countries with relatively small immigrant samples nor are they driven by the countries with the largest immigrant samples (results are available on request).

⁶ For 9 countries we use the variable pm007c or pm007b that distinguishes between being born in the country of residence, or in different regions of the world. In case this information was unavailable (either if it was missing or in the case of Germany, Luxembourg and Greece), immigrant status was reported 'Unknown'.

The variable referring to unemployment benefits is central to our analysis. We construct a time-varying variable indicating the monthly amount of unemployment benefits. As ECHP does not provide direct information about monthly amounts, we derive this information from the yearly amount of unemployment benefits, the number of months in unemployment and from whether the individual receives unemployment benefits at interview time. We further define the replacement rate as the monthly amount of unemployment benefits relative to the monthly salary in the last job. In order to account for benefit duration, we include a variable indicating whether the individual is close to benefit exhaustion using the benefit-generosity index of Scruggs and Alan (2006).

Following Kogan (2006; 2007), Fleischmann and Dronkers (2010), and Reyneri and Fullin (2011) we also use three macro variables. First, the EPL index (time varying) is based on the level of hiring and firing regulations and the easiness of using temporary contracts (OECD, 2004). Second, the size of the secondary labour market is a self-constructed time-varying variable measuring the percentage of workers employed in this sector according to the ISEI occupational scale (Ganzeboom and Treiman, 1996). The secondary sector includes the unskilled, semi-skilled and low-skilled occupations that are assigned the scores 16 to 33 on the ISEI-scale (further discussion see Kogan, 2007). Third, we use the percentage of asylum seekers in relation to the total population of incoming non-EU migrants as a time-varying macro-level proxy for the focus of immigration policy (see Kogan, 2007: 30; EUROSTAT, 2000).⁷ No other more precise indicator is available for the relevant time period.

The list of control variables includes measures for human capital, equivalent household income, demographic characteristics, the sequence of the unemployment spell, regional unemployment rates, country- and year-dummies. Table 1 presents the descriptive statistics for the main control variables separately for immigrants and natives for the first and sixth unemployment month. According to these statistics, most migrants originate from Eastern Europe and Africa and are on average a few years older than the natives. The immigrants are more likely than natives to have children below the age of 12 and to be married. It is also interesting to note that unemployed immigrants on average have a higher educational level, but unlike natives, it is not the most highly educated immigrants that exit unemployment first.

⁷ This variable is included in the model as a categorical variable (ranging from less than 20% to more than 40%) as this specification demonstrated the best model fit measures.

Table 1: Descriptive statistics at different time points of the unemployment spell*

| | Natives (month 1) | Non-EU imm. (month 1) | Natives (month 6) | Non-EU imm. (month 6) |
|---------------------------------|-------------------|--------------------------|-------------------|--------------------------|
| Eastern Europe (%) | ... | 25,1 | ... | 19,4 |
| Africa (%) | ... | 23,6 | ... | 24,1 |
| Asia (%) | ... | 7,1 | ... | 8,4 |
| South America (%) | ... | 8,0 | ... | 8,6 |
| Country of origin unknown (%) | ... | 36,2 | ... | 39,5 |
| Average age | 33,2 | 35,7* | 33,7 | 36,8* |
| Female (%) | 51,2 | 50,0 | 53,5 | 50,0 |
| Children<12 years (%) | 31,8 | 42,0* | 31,7 | 39,9* |
| Married (%) | 43,1 | 64,2* | 36,8 | 63,2* |
| Low educational level (%) | 50,2 | 41,0* | 53,5 | 41,2* |
| Medium educational level (%) | 34,0 | 36,7 | 33,4 | 36,5 |
| High educational level (%) | 15,8 | 22,4* | 13,1 | 22,3* |
| Average equiv. household income | 10 543,6 | 10 905,5 | 9 643,5 | 9 987,9 |
| Total | 36 810 | 1 458 | 18 744 | 834 |

* Significant differences between immigrants and natives at a 5 % level.

3.2 Methodology

We employ an event-history model distinguishing between three competing risks: inactivity, primary and secondary labour market. The distinction between the primary and secondary labour market follows the definition that was explained above. After organising our data in a person-month file, we apply a discrete-time event-history model by estimating a multinomial logit regression (Allison, 1982). In this model, the dependent variable is the conditional probability that an individual i makes the transition into state m in time point t conditional that (s)he has remained unemployed until time point $t - 1$. This conditional probability depends on a function of unemployment duration t – duration dependence – and on several institutional and demographic

characteristics. We also include fixed effects for the countries of reference. After testing several functions for duration dependence (piecewise constant, linear, log linear, curvilinear functions) by comparing the model fit measures (AIC and BIC), we use the logarithmic specification that performed best. To correct for possible bias in duration dependence as well as for possible correlation between the competing risks we control for unobserved heterogeneity using a parametric approach (Vermunt, 2002). Our choice on the functional form of unobserved heterogeneity is based on the Bayesian Information Criterion (BIC) and in the Akaike Information Criterion (AIC) (Agresti, 2002). The conditional transition probability for an individual i to a competing risk j conditional of remaining t months in unemployment and of a vector of observed characteristics X_{it} can be expressed as:

$$P_j(y_{ij} = j | X_{it}, t, e_{ij}) = \frac{\exp(b_0^w + b_1^w \cdot \ln t + b_2^w \cdot X_{it} + \varepsilon_{ij})}{1 + \sum_{m=1}^4 \exp(b_0^{w'} + b_1^{w'} \cdot \ln t + b_2^{w'} \cdot X_{it} + \varepsilon_{im})}$$

where ε_{ij} represents the unobserved individual fixed effects assumed to be independent of observed characteristics, but varying with destination states j . We further assume that ε_{ij} follows a standard normal distribution.

We allow for multiple unemployment spells per individual and include fixed effects to account for differences between them. By accounting for random individual effects, we also correct for the possible correlation between these spells that is introduced by spell-constant unobserved factors (van den Berg, 2001). In essence, we therefore estimate a 2-level multilevel model (monthly information nested within individuals) with fixed effects for the order of the multiple spells.

4. Results

4.1 Descriptive statistics

Table 2 contrasts the unemployment rates for immigrants and natives from Eurostat with the average unemployment duration for immigrants and natives from the ECHP. The cross-country pattern for unemployment rates differs somewhat from the pattern for durations. Notably, it is not in the two Scandinavia countries where immigrants experience the most persistent unemployment

spells and the nativity gap is much smaller when considering unemployment durations rather than unemployment rates. This is especially the case for Finland where the unemployment rate of immigrants is twice as high as the rate of natives, while the average unemployment duration of the two groups is roughly the same. Such differences emerge also for Austria, Portugal, Greece and Luxembourg. In contrast, in Belgium and France, the much larger unemployment rates for immigrants go alongside with much longer unemployment durations. The differences in the cross-country variation between rates and duration highlight the necessity to investigate both aspects and not just unemployment rates (or incidence) as previous studies have done.

Table 2: Unemployment rates and average unemployment durations in months for immigrants and natives in Europe

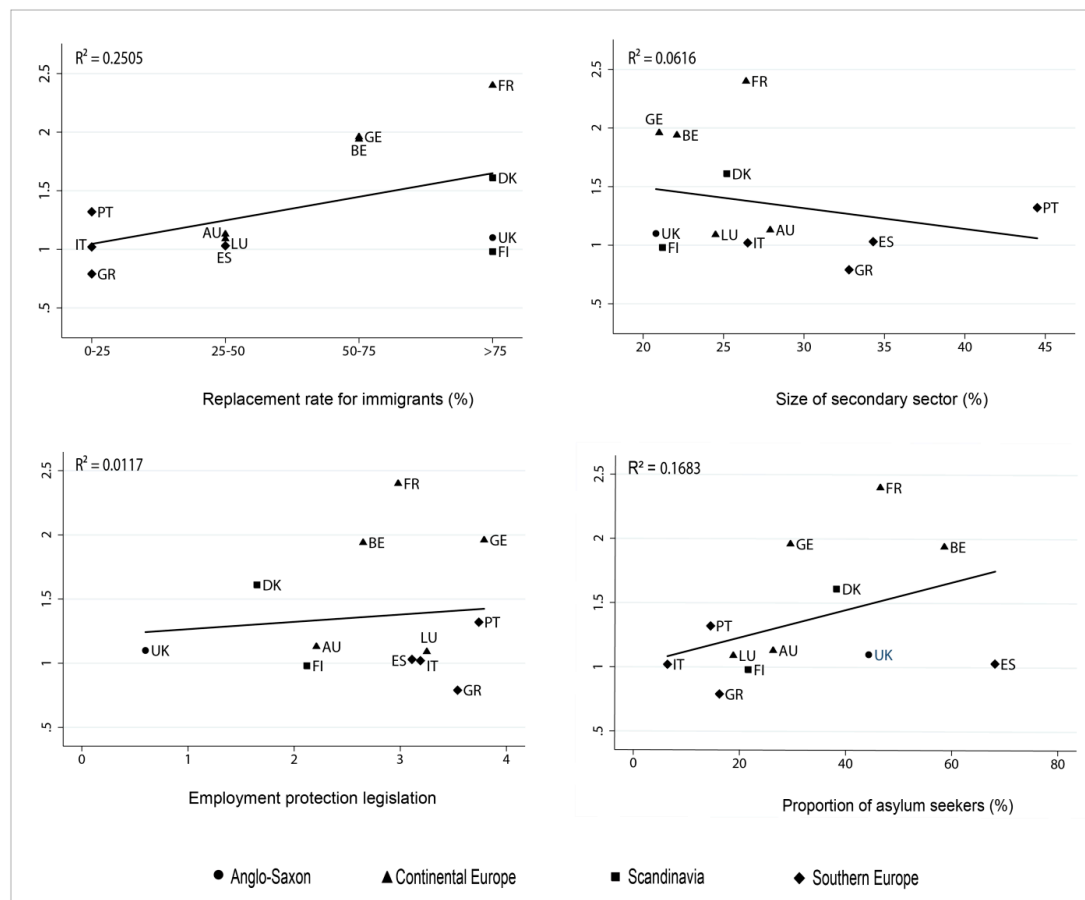
| | Rates* | | | Durations** | | |
|------------|---------|------------|-------|-------------|------------|-------|
| | Natives | Immigrants | Ratio | Natives | Immigrants | Ratio |
| Finland | 11,6 | 24,4 | 2,1 | 10,0 | 9,8 | 0,98 |
| Denmark | 4,8 | 14,2 | 3,0 | 8,5 | 13,7 | 1,61 |
| Belgium | 7,7 | 25,0 | 3,2 | 18,2 | 35,3 | 1,94 |
| Germany | 8,2 | ... | ... | 16,2 | 31,7 | 1,96 |
| France | 11,2 | 21,7 | 1,9 | 15,3 | 36,7 | 2,40 |
| Austria | 4,2 | 9,3 | 2,2 | 9,1 | 10,3 | 1,13 |
| Luxembourg | 1,7 | 7,1 | 4,2 | 8,8 | 9,6 | 1,09 |
| Italy | ... | ... | ... | 20,2 | 20,6 | 1,02 |
| Spain | 15,5 | 17,2 | 1,1 | 11,3 | 11,6 | 1,03 |
| Portugal | 4,6 | 10,9 | 2,4 | 12,4 | 16,4 | 1,32 |
| Greece | 11,8 | 15,8 | 1,3 | 14,3 | 11,3 | 0,79 |
| UK | 5,9 | 9,7 | 1,6 | 13,4 | 14,7 | 1,10 |

*Source: Eurostat (1999).

** Source: Based on calculations from the ECHP. The extended mean duration is presented here. This is calculated by extending the survival curve exponentially to zero.

Figure 1 presents the associations between the nativity unemployment-duration gap and the four institutional variables at the macro level; replacement rate of the unemployment benefit, size of the secondary sector, EPL and proportion of asylum seekers. The first graph indicates a positive association between the nativity unemployment-duration gap and the benefit replacement rate. This supports Hypothesis 1, which suggests that there are disincentive effects of generous benefits for immigrants and thereby also the findings of previous studies that used unemployment incidence instead of unemployment duration. However, the association is not clear-cut. For instance in Finland, immigrants have access to generous benefits with high replacement rates, while the unemployment-duration gap is comparable to Spain and Italy.

Figure 1: The nativity unemployment-duration gap and the institutional variables



The descriptive statistics also support the hypotheses about the effect of employment structure and immigration policy. In greater detail, as shown in the last graph, a humanitarian focused immigration policy appears to have the expected negative implications for the employment opportunities of immigrants (Hypothesis 5) while the second graph indicates that a large secondary sector fosters labour market integration (Hypothesis 4). However, the third graph does not suggest that a strict EPL increases the unemployment-duration gap between immigrants and natives (Hypothesis 3).

4.2 Multivariate analysis

The next step is to investigate whether the correlations between host country features and the unemployment-duration gap are corroborated by multivariate analysis. In total we estimate 6 different survival models. Models 1, 3 and 5 explore exits to inactivity and employment, whilst Models 2, 4 and 6 examine transitions into inactivity, the secondary and primary labour market. Within each set of 3 models, the first serves as a reference since it includes no measures for institutions/structures (Model 1 and 2). The specification of the second and third model differs in the operationalisation of unemployment benefits. More specifically, in Models 3 and 4, benefits are measured with a dummy indicating whether the individual receives benefits or not. In Models 5 and 6, benefits are measured by the replacement rate – the amount of unemployment benefit relative to the last monthly salary. By looking at the model-fit measures (see the bottom of Tables 3 and 4), we conclude that models, which control for host country features and operationalise unemployment benefits as replacement rate (Models 5 and 6) are to be preferred.⁸

Table 3 presents the results from Models 1 and 2. The coefficients for the dummies indicating the region of origin indicate that immigrants are less likely to exit to employment than natives (see Model 1). Immigrants from Asia are the most disadvantaged group. When distinguishing between exits to the primary and to the secondary labour market (Model 2), it is evident that this effect is stronger for transitions into the primary sector for immigrants coming from Eastern Europe and from Asia and for transitions into the secondary labour market for

⁸ According to the guidelines defined by Raftery (1995), when the BIC improves with more than 10, the evidence in favor of the extended model is very strong.

immigrants coming from Africa and South America. Finally, the only significant difference between immigrants and natives for transitions to inactivity emerges for migrants coming from Africa. These immigrants are significantly less likely to move to inactivity.

Table 3: Results from the competing risk duration model without institutional variables*

| | Model 1 | | Model 2 | | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Inactivity | Employment | Inactivity | Secondary sector | Primary sector |
| Intercept | -7,706 (0,156) | -2,654 (0,069) | -7,389 (0,147) | -4,164 (0,112) | -3,510 (0,096) |
| <i>Individual level</i> | | | | | |
| Eastern Europe | 0,134 (0,180) | -0,574 (0,134) | -0,073 (0,167) | -0,263 (0,198) | -0,546 (0,185) |
| Africa | -0,277 (0,212) | -0,528 (0,120) | -0,372 (0,205) | -0,719 (0,190) | -0,255 (0,148) |
| Asia | -0,064 (0,307) | -0,920 (0,210) | -0,193 (0,295) | -0,258 (0,325) | -1,204 (0,327) |
| South America | 0,210 (0,245) | -0,154 (0,176) | 0,170 (0,229) | -0,363 (0,334) | 0,206 (0,232) |
| Country of origin unknown | 0,166 (0,113) | -0,780 (0,083) | 0,050 (0,105) | -0,162 (0,127) | -1,017 (0,113) |
| Age | -0,059 (0,010) | 0,053 (0,007) | -0,052 (0,009) | 0,025 (0,011) | 0,075 (0,010) |
| Age2 | 0,001 (0,000) | -0,001 (0,000) | 0,001 (0,000) | -0,001 (0,000) | -0,002 (0,000) |
| Female | 0,547 (0,056) | -0,110 (0,030) | 0,559 (0,054) | -0,900 (0,051) | 0,464 (0,041) |
| Children<12 years | -0,039 (0,081) | 0,034 (0,035) | -0,067 (0,079) | 0,182 (0,050) | -0,120 (0,053) |
| Married | -0,018 (0,074) | 0,472 (0,037) | 0,044 (0,071) | 0,326 (0,057) | 0,440 (0,054) |
| Female*children | 0,535 (0,088) | -0,309 (0,046) | 0,502 (0,085) | -0,285 (0,067) | -0,242 (0,064) |
| Female*married | 0,644 (0,080) | -0,451 (0,045) | 0,544 (0,077) | -0,054 (0,071) | -0,506 (0,063) |
| Medium education | -0,185 (0,039) | 0,049 (0,027) | -0,168 (0,037) | -0,621 (0,038) | 0,725 (0,033) |
| High education | -0,260 (0,054) | 0,414 (0,031) | -0,177 (0,052) | -1,649 (0,070) | 1,512 (0,042) |
| Equivalent household income | 0,001 (0,003) | 0,031 (0,001) | 0,005 (0,003) | 0,016 (0,002) | 0,033 (0,002) |
| Duration dependence | 0,185 (0,018) | 0,085 (0,012) | 0,274 (0,018) | 0,011 (0,014) | 0,037 (0,014) |
| Spell ongoing at the start of the survey | -0,670 (0,062) | -0,864 (0,040) | -0,825 (0,060) | -0,703 (0,059) | -0,772 (0,053) |
| <i>Country level</i> | | | | | |
| | -0,009 | -0,044 | -0,015 | -0,023 | -0,068 |

| | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|
| Unemployment rate | (0,004) | (0,003) | (0,004) | (0,004) | (0,004) |
| Finland** | 0,250 | 0,526 | 0,228 | 0,459 | 0,534 |
| | (0,100) | (0,057) | (0,095) | (0,103) | (0,073) |
| Denmark | 0,194 | 0,145 | 0,216 | 0,433 | -0,143 |
| | (0,010) | (0,060) | (0,094) | (0,098) | (0,077) |
| Belgium | -0,242 | -0,263 | -0,212 | -0,042 | -0,594 |
| | (0,113) | (0,067) | (0,106) | (0,114) | (0,088) |
| France | -0,281 | -0,012 | -0,267 | 0,097 | -0,100 |
| | (0,094) | (0,052) | (0,089) | (0,091) | (0,069) |
| Austria | 0,394 | 0,333 | 0,428 | 0,533 | -0,098 |
| | (0,120) | (0,071) | (0,114) | (0,114) | (0,103) |
| Luxembourg | 0,711 | -0,023 | 0,660 | 0,012 | -0,037 |
| | (0,200) | (0,121) | (0,190) | (0,270) | (0,176) |
| Italy | 0,387 | -0,538 | 0,307 | -0,234 | -0,770 |
| | (0,076) | (0,047) | (0,072) | (0,084) | (0,065) |
| Spain | 0,502 | 0,088 | 0,481 | 0,462 | -0,132 |
| | (0,078) | (0,047) | (0,073) | (0,085) | (0,065) |
| Portugal | -0,017 | -0,152 | -0,078 | 0,228 | -0,463 |
| | (0,094) | (0,058) | (0,089) | (0,093) | (0,078) |
| Greece | 0,522 | -0,460 | 0,418 | -0,066 | -0,686 |
| | (0,084) | (0,053) | (0,079) | (0,090) | (0,068) |
| UK | 0,427 | -0,294 | 0,394 | -0,581 | -0,026 |
| | (0,121) | (0,074) | (0,116) | (0,130) | (0,096) |
| Individual level variance (random effects) | -0,515 | 0,970 | 0,087 | -1,329 | 1,271 |
| | (0,039) | (0,018) | (0,032) | (0,022) | (0,022) |
| AIC | 206986,62 | | 227734,82 | | |
| BIC | 207642,40 | | 228718,49 | | |

Bold** coefficients indicate significance at a 5% level while ***bold and italic indicates a 10% significance level.

**Germany is the reference category. Note: Spell sequence and year-dummies are controlled for, but the results are not presented in the table.

We now turn to Table 4 that presents the models, which include measures for host country institutions/structures. More specifically, Models 3 and 4 include the macro-level indicators and a dummy, which indicates whether a person receive unemployment benefits or not, while Models 5 and 6 operationalize unemployment benefits with 4 dummies corresponding to different replacement levels (0 to 25%, 25% to 50%, 50% to 75% and larger than 75%). In all these models, we allow for differences in the effects of institutions/structures between immigrants and natives by including interactions. Specifically, the main effect for migrants is operationalized in the same way as in Models 1 and 2, namely with dummies for the region of origin. Due to the loss of statistical power, we could only include an interaction between a general dummy for immigrants and each institution/structure.⁹ The results from the first column of the 2-exit model (Model 3), suggest that

⁹ This is similar to the approach of Kogan (2006).

unemployment benefits reduce the risk of becoming inactive. If we look at the interaction between benefits and immigrants, we notice that this effect is stronger for immigrants than for natives, but this difference is not statistically significant. Moreover, as the second column of Model 3 suggests, both for immigrants and for natives benefits are unrelated to the likelihood of making a transition to employment. When approaching benefit exhaustion, however, job seekers (both immigrants and natives) are more likely to make a transition to employment. This is because the reservation wage decreases and thus job seekers are willing to accept inferior job offers. The picture does not change when we distinguish between exits to the primary and the secondary labour market (Model 4). The only difference is that the interaction effect between benefits and the immigrant dummy is negative for exits to the secondary labour market (-0.103) while it is positive for the primary labour market (0.124). This suggests that benefits increase the reservation wage of immigrants for the secondary labour market, but provide better resources for efficient job search in the primary labour market. However, this evidence is weak as the interaction effects are not statistically significant.

In Models 5 and 6, the benefit dummy is replaced by 4 dummies that correspond to benefits at different replacement rates, which allows us to examine whether benefit generosity influences the nativity unemployment-duration gap. Only the dummies indicating a replacement rate lower than 25% and larger than 75% are interacted with the immigrant dummy. The interaction terms with the two midst replacement-rate levels are not included as these were insignificant and their inclusion deteriorated the model fit.¹⁰ The main effects of the dummies for the replacement rates in Models 5 and 6 reveal a U-shaped effect of replacement rate on transitions to employment for natives. In greater detail, the results suggest non-significant employment effects for low replacement rates, negative effects for medium-replacement rates and positive effects for high replacement rates. The results of Model 6 suggest that this U-shape effect is rather similar for exits to the secondary and primary labour markets.

¹⁰ For the same reason, we also exclude the interaction effect between the lowest replacement-rate dummy and benefit exhaustion.

Table 4: Results from the competing risk duration model including institutional variables*

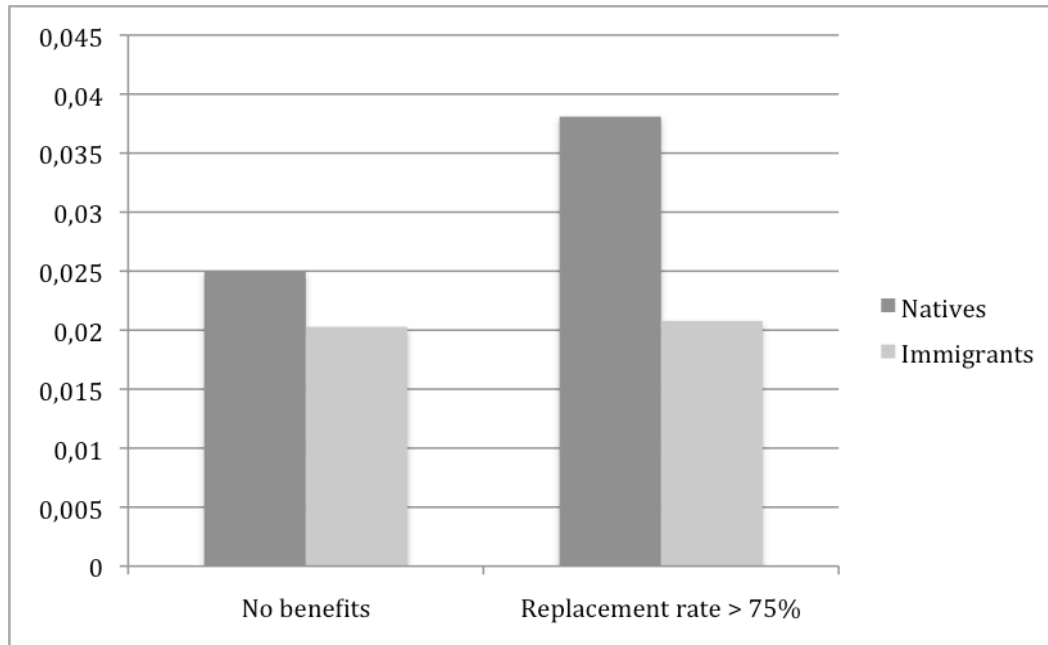
| | Model 3 | | Model 4 | | | Model 5 | | Model 6 | | |
|-----------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Inact. | Empl. | Inact. | Sec. | Prim. | Inact. | Empl. | Inact. | Sec. | Prim. |
| Eastern Europe | 2,061 (1,903) | -3,996 (1,353) | 1,949 (1,860) | -3,825 (1,916) | -4,444 (1,510) | 1,807 (1,889) | -3,573 (1,307) | 1,776 (1,847) | -3,716 (1,868) | -4,238 (1,492) |
| Africa | 1,559 (1,871) | -3,715 (1,317) | 1,412 (1,831) | -3,985 (1,852) | -3,833 (1,471) | 1,311 (1,857) | -3,288 (1,274) | 1,248 (1,817) | -3,843 (1,806) | -3,615 (1,453) |
| Asia | 1,921 (1,898) | -3,960 (1,331) | 1,780 (1,858) | -3,496 (1,902) | -4,796 (1,502) | 1,626 (1,890) | -3,523 (1,285) | 1,579 (1,850) | -3,315 (1,848) | -4,566 (1,482) |
| South America | 2,201 (1,907) | -3,441 (1,366) | 2,111 (1,866) | -3,778 (1,894) | -3,489 (1,503) | 1,991 (1,895) | -3,060 (1,326) | 1,975 (1,854) | -3,706 (1,852) | -3,230 (1,487) |
| Country of origin unknown | 1,757 (1,779) | -3,876 (1,234) | 1,570 (1,741) | -3,207 (1,760) | -4,612 (1,405) | 1,461 (1,763) | -3,446 (1,189) | 1,363 (1,726) | -3,012 (1,707) | -4,396 (1,386) |
| Benefit exhaustion | 1,098 (0,058) | 0,209 (0,048) | 1,102 (0,058) | 0,090 (0,075) | 0,319 (0,061) | 1,088 (0,057) | 0,214 (0,046) | 1,093 (0,057) | 0,100 (0,071) | 0,320 (0,059) |
| Unempl. Benefits | -0,518 (0,046) | -0,021 (0,023) | -0,563 (0,045) | 0,031 (0,032) | 0,020 (0,031) | ... | ... | ... | ... | ... |
| Unempl. Benefits*Non-EU | -0,193 (0,164) | 0,049 (0,109) | -0,156 (0,158) | -0,103 (0,158) | 0,124 (0,149) | ... | ... | ... | ... | ... |
| Unempl. Benefits*exhaustion | -0,348 (0,134) | 0,301 (0,080) | -0,349 (0,134) | 0,501 (0,112) | 0,053 (0,113) | ... | ... | ... | ... | ... |
| Replacement rate < 25 % | ... | ... | ... | ... | ... | -0,323 (0,086) | -0,020 (0,040) | -0,421 (0,084) | 0,094 (0,057) | 0,072 (0,054) |
| Replacement rate >25% &<50% | ... | ... | ... | ... | ... | -0,601 (0,071) | -0,185 (0,032) | -0,655 (0,069) | -0,173 (0,048) | -0,076 (0,044) |
| Replacement rate >50% &<75% | ... | ... | ... | ... | ... | -0,582 (0,065) | -0,117 (0,031) | -0,628 (0,064) | -0,084 (0,043) | -0,076 (0,043) |
| Replacement rate >75 % | ... | ... | ... | ... | ... | -0,541 (0,063) | 0,189 (0,028) | -0,550 (0,061) | 0,229 (0,040) | 0,173 (0,040) |
| Non-EU*repl. >0 & <25% | ... | ... | ... | ... | ... | -1,163 (0,529) | -0,071 (0,206) | -1,061 (0,518) | -0,208 (0,285) | -0,059 (0,262) |
| Non-EU*repl. >25% &<50% | ... | ... | ... | ... | ... | NS | NS | NS | NS | NS |
| Non-EU*repl. >50% &<75% | ... | ... | ... | ... | ... | NS | NS | NS | NS | NS |
| Non-EU*repl. >75 % | ... | ... | ... | ... | ... | 0,234 (0,211) | -0,361 (0,122) | 0,171 (0,204) | -0,573 (0,184) | -0,143 (0,162) |
| Exhaust.* repl. >0 & <25% | ... | ... | ... | ... | ... | NS | NS | NS | NS | NS |
| Exhaust.* repl. 25% & <50% | ... | ... | ... | ... | ... | -0,287 (0,244) | 0,422 (0,131) | -0,258 (0,243) | 0,679 (0,174) | 0,126 (0,195) |
| Exhaust.* repl. 50%&<75% | ... | ... | ... | ... | ... | -0,305 (0,228) | 0,140 (0,134) | -0,292 (0,227) | 0,424 (0,176) | -0,234 (0,205) |
| Exhaust.* repl. >75 % | ... | ... | ... | ... | ... | -0,452 (0,236) | 0,438 (0,120) | -0,462 (0,235) | 0,594 (0,162) | 0,241 (0,174) |
| EPL | 0,002 (0,088) | 0,086 (0,045) | 0,019 (0,086) | 0,044 (0,066) | 0,141 (0,061) | 0,009 (0,088) | 0,089 (0,045) | 0,025 (0,086) | 0,055 (0,067) | 0,143 (0,061) |
| Non-EU*EPL | 0,140 (0,158) | -0,069 (0,106) | 0,162 (0,154) | -0,114 (0,161) | -0,122 (0,140) | 0,169 (0,160) | -0,091 (0,105) | 0,190 (0,155) | -0,158 (0,164) | -0,142 (0,141) |
| Size of sec. lab. | 0,129 (0,066) | -0,045 (0,035) | 0,113 (0,065) | -0,009 (0,048) | -0,003 (0,050) | 0,127 (0,066) | -0,046 (0,035) | 0,112 (0,065) | -0,012 (0,048) | -0,002 (0,050) |
| Size of sec. lab.2 | -0,002 (0,001) | 0,001 (0,001) | -0,002 (0,001) | 0,000 (0,001) | -0,000 (0,001) | -0,002 (0,001) | 0,001 (0,001) | -0,002 (0,001) | 0,000 (0,001) | -0,000 (0,001) |
| Non-EU*size | -0,116 (0,125) | 0,257 (0,085) | -0,111 (0,122) | 0,281 (0,121) | 0,288 (0,098) | -0,103 (0,124) | 0,238 (0,083) | -0,103 (0,122) | 0,276 (0,119) | 0,282 (0,097) |
| Non-EU*size2 | 0,001 (0,002) | -0,004 (0,001) | 0,001 (0,002) | -0,004 (0,002) | -0,004 (0,002) | 0,001 (0,002) | -0,003 (0,001) | 0,001 (0,002) | -0,004 (0,002) | -0,004 (0,002) |
| % of asylum seekers | -0,037 (0,059) | 0,145 (0,029) | -0,031 (0,058) | 0,240 (0,044) | 0,056 (0,039) | -0,035 (0,059) | 0,143 (0,029) | -0,030 (0,058) | 0,236 (0,044) | 0,056 (0,039) |
| Non-EU*asylum seekers | 0,010 (0,087) | -0,236 (0,060) | -0,033 (0,084) | -0,254 (0,084) | -0,202 (0,081) | -0,029 (0,086) | -0,225 (0,060) | -0,051 (0,083) | -0,237 (0,085) | -0,197 (0,081) |
| AIC | 206403,31 | | 227080,70 | | | 206252,40 | | 226953,88 | | |
| BIC | 207251,03 | | 228352,28 | | | 207196,09 | | 228369,41 | | |

Bold** coefficients indicate significance at a 5% level while ***bold and italic coefficients indicate a 10% significance level. The results for the control variables are presented in Table 5 in the Appendix.

Differences between immigrants and natives on transitions to employment are only found for the highest replacement rates. In Model 5, the interaction effect between the immigrant dummy and the highest replacement rates is negative and significant (-0,361). In Model 6, this interaction effect is negative for exits to both segments of the labour market, but only significant for exits to the secondary labour market. Therefore, it seems that generous benefits increase the reservation wage of immigrants more than the reservation wage of natives. This is in line with Hypothesis 1 that anticipates such disincentive effects for immigrants when exiting to the secondary sector.

To examine further the aforementioned findings, we plot the predicted probabilities for transitions to the secondary sector for immigrants and natives (see Figure 2). This figure shows that the most generous benefits have a positive effect for natives, but not for immigrants. More specifically, for immigrants, the transition probability to the secondary labour market is practically the same for those who do not receive benefits and those with the highest replacement rates. Therefore, in line with Hypothesis 2, there is no reason to believe that high replacement rates produce disincentive effects for immigrants.

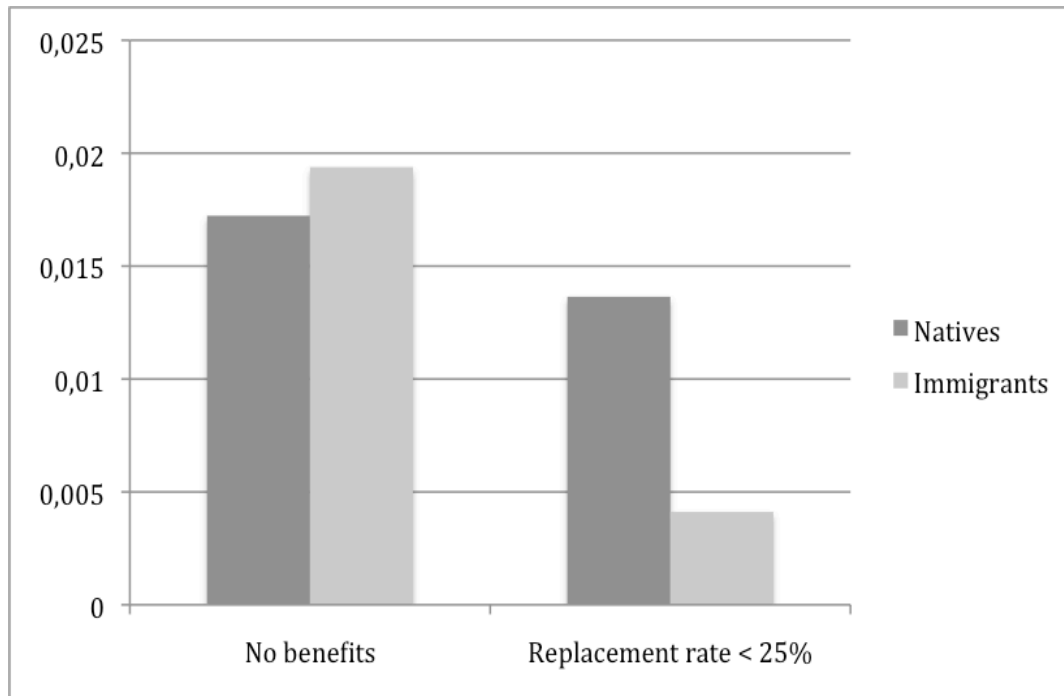
Figure 2: Predicted probabilities for transitions to the secondary labour market and different benefit levels*



*Calculations are based on 6-12 months of unemployment.

Estimates from Models 3 and 4 indicate that benefits prevent the unemployed from leaving the labour force, but this effect does not differ between immigrants and natives (see main and interaction effect of benefits for transitions to inactivity). However, when shifting our attention to Models 5 and 6, the picture varies according to the level of the replacement rate. Immigrants receiving low benefits are much less likely to exit to inactivity than natives. This is illustrated in Figure 3, which presents the predicted probabilities. As evident from this figure, the conditional probability of becoming inactive is roughly equal for immigrants and natives that do not receive benefits. In contrast, for those receiving low benefits, the conditional probability of becoming inactive is much lower (almost zero) for immigrants than for natives. Therefore, in accordance with Hypothesis 2, even low benefits are able to tackle the discouraged worker problem for immigrants.

Figure 3: Predicted probabilities for transitions to inactivity and different benefit levels*



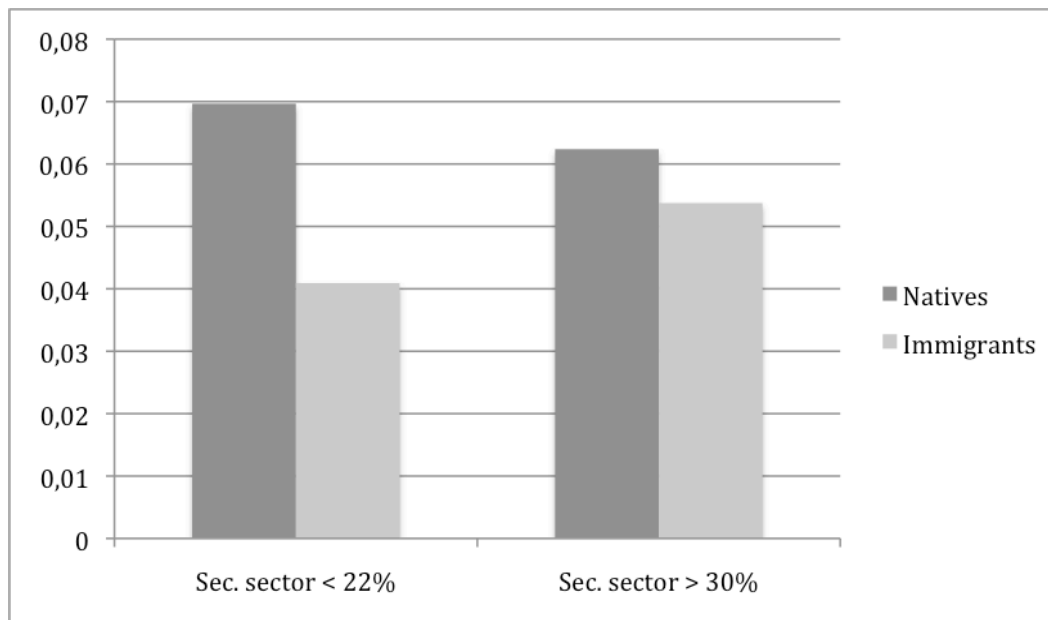
*Calculations are based on 6-12 months of unemployment.

Directing our attention towards the influence of labour market institutions, Models 3-6 show that *strict EPL* has a positive effect on transitions to employment for natives (see the main effect of EPL in Table 4). Models 4 and 6 suggest that this effect holds only for exits to the primary labour market. As the interaction effect of EPL with the immigrant dummy is statistically insignificant, we find no evidence of occupational segregation and increasing transitions to inactivity for immigrants due to strict EPL as anticipated in Hypothesis 3. This could be explained by the fact that the current study examines the influence of unemployment duration rather than incidence (see also Reyneri and Fullin, 2011).

Turning to the impact of employment structure and in line with Hypothesis 4, the size of *the low-skilled labour* increases the conditional probability for an exit to employment for immigrants, but not for natives. Interestingly, this holds for exits to both the secondary and the primary labour market. It seems that although immigrants are overrepresented in the secondary sector, the increased availability of low-skilled jobs has spill-over effects that improve the overall labour

market position of immigrants. This becomes obvious in Figure 4 that presents the average predicted probabilities for natives and immigrants when the size of the low-skilled labour force is small (less than 22%) and large (more than 30%). When the low-skilled sector is small, immigrants have, on average, about a 2,5% lower predicted probability to enter employment than natives. This disadvantage reduces to about 0.5% when the low-skilled sector reaches 30%.

Figure 4: Predicted probabilities for transitions to employment and size of the secondary sector*

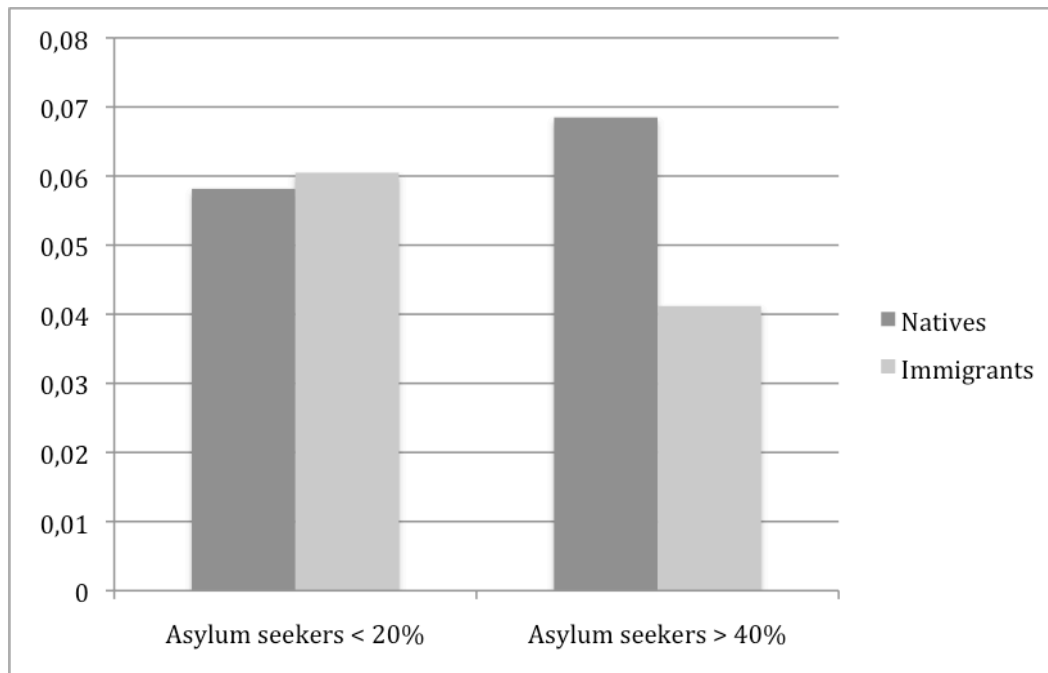


*Calculations are based on 6-12 months of unemployment.

Finally, *immigration policy* also affects the employment opportunities of immigrants. Consistent with Hypothesis 5, the higher the percentage of asylum seekers, the lower is the likelihood for immigrants to make a transition to employment, both to the secondary and the primary labour markets (see Models 4 and 6). This is illustrated in Figure 5 that presents the average predicted probabilities for exits to the secondary labour market when the percentage of asylum seekers is small (less than 20%) and large (more than 40%). When there are few asylum seekers, the probability of moving to the secondary sector is, on average, similar for natives and immigrants. However, when the proportion of asylum seekers exceeds 40%, immigrants are more

disadvantaged. Finally, contrarily to Hypothesis 5, immigration policy is irrelevant for transitions to inactivity.

Figure 5: Predicted probabilities for transitions into the secondary sector and proportion of asylum seekers*



*Calculations are based on 6-12 months of unemployment.

5. Conclusions and Discussion

Immigrants suffer from higher unemployment rates in Scandinavia and Continental Europe than in the Southern and Anglo-Saxon European countries. This has raised concern whether generous welfare states create disincentives for immigrant employment. Such a suspicion is reinforced by previous research that studied unemployment incidence and measured welfare generosity at welfare regime level (e.g. Kogan, 2006; Kesler, 2006). Contrarily to previous studies, we examined the effect of host country features – unemployment benefits, EPL, size of the low-skilled labour market and immigration policy – on the unemployment duration gap between immigrants and natives distinguishing between three exit states from unemployment (inactivity, secondary and primary

labour market exits). We tested empirically the comparative theoretical framework with the use of individual level measures for unemployment benefits.

Our analysis reveals that immigrants from Asia, Africa and Eastern Europe experience more persistent unemployment than natives especially when exiting to the primary labour market. However, immigrants in unemployment are typically less likely to become discouraged and leave the labour force than natives. Related to the effects of host country characteristics, our analysis suggests that disincentive effects of benefits, if any, are very small. In some cases, unemployment benefits even decrease transitions out of the labour force for immigrants (more than natives) and thereby prevent marginalisation. Therefore, our results do not indicate that the large unemployment-duration gap between immigrants and natives in some countries is caused by the access to generous unemployment benefits.

Our analysis also suggests that immigrants fare better in labour markets with a high demand for low-skilled labour. This is in line with the idea that as immigrants are over-represented in low-skilled jobs, their labour market chances increase with the availability of such jobs. Surprisingly, this does not only concern the secondary labour market, but also the primary. A possible mechanism for this spill-over effect is that as the unemployment rate of immigrants tends to be relatively low in labour markets with a large secondary sector, immigrants are less likely to become stigmatised. Furthermore, immigrants probably also face less human capital depreciation when there is a high demand for low-skilled labour because it is easier for them to find a low-skilled job right away upon arrival. This job may then serve as a stepping-stone into a job in the primary sector.

According to the comparative theoretical framework presented above, employment protection is supposed to intensify the division between insiders and outsiders on the labour market and drive immigrants to the group of the outsiders. This is not confirmed by our analysis. Strict EPL neither leads to longer unemployment duration for immigrants nor does it increase ethnic job-segregation or transitions to inactivity.

Finally, we expected that a humanitarian-oriented immigration policy is associated with poorer labour market integration of immigrants as refugees often face problems that make their labour market integration difficult. We indeed found evidence that the nativity unemployment-

duration gap is larger in countries with many humanitarian migrants. However, our results do not indicate that a humanitarian immigration policy leads to increased dropouts from the labour force.

All in all, we confirm that institutions impinge upon the labour market allocation of immigrants, but we contrast that access to social security has disincentive effects for immigrants. Our findings therefore have important implications for policy makers. It is important for policy makers to adapt their policies according to the type of migrants they receive and the general institutional structure. Countries with many humanitarian migrants and a low demand for low-skilled labour need to provide more support for integrating their immigrant population on the labour market than those who have received many labour migrants and/or have a high demand for low-skilled labour. An active integration strategy, which includes access to social protection for immigrants and participation in active labour market policies, is probably a necessary strategy for the Scandinavian and Continental European countries in order for their immigrants to overcome other employment barriers. In line with this, newly arrived immigrants have been offered official integration programmes throughout Scandinavia since the beginning of the new millennium. Sometimes, active participation is even a condition for benefit reciprocity (Brochmann and Hagelund, 2011). Such policies are less developed in other European countries (Rinne, 2012).

This study has also significant implications for future research. Our findings highlight the importance of examining the nativity unemployment duration gap, while measuring economic incentives at individual level rather than by including macro-level indicators. However, international surveys represent certain challenges for this and other comparative studies. Firstly, institutional and policy indicators are not always measured at individual level (e.g. benefit reciprocity, immigration background, participation in active labour market policies). Secondly, the identification of immigrants and migration related variables are often not very detailed. The current study distinguishes between *regions of birth*, but it would have been ideal to obtain information about *country of birth*. Likewise, it was not possible to control for duration of residence and cultural-linguistic distance to the host country.¹¹ The development of new international longitudinal datasets, which overcome these challenges, could facilitate more detailed research about the effectiveness of different integration efforts (e.g. introductory programmes) and better account for potential selection processes related to migration.

¹¹ These variables were unavailable for some countries or years.

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Appendix - Table 5: Results for the control variables of the models presented in table 3*

| | Model 3 | | Model 4 | | | Model 5 | | Model 6 | | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Inact. | Empl. | Inact. | Sec. | Prim. | Inact. | Empl. | Inact. | Sec. | Prim. |
| Intercept | -9,071 (0,864) | -2,661 (0,460) | -8,661 (0,847) | -4,929 (0,645) | -3,930 (0,656) | -9,050 (0,864) | -2,658 (0,461) | -8,643 (0,847) | -4,922 (0,645) | -3,941 (0,656) |
| <i>Individual level</i> | | | | | | | | | | |
| Age | -0,045 (0,009) | 0,052 (0,007) | -0,038 (0,009) | 0,023 (0,011) | 0,074 (0,010) | -0,045 (0,009) | 0,052 (0,007) | -0,038 (0,009) | 0,022 (0,011) | 0,075 (0,010) |
| Age2 | 0,001 (0,000) | -0,001 (0,000) | 0,001 (0,000) | -0,001 (0,000) | -0,002 (0,000) | 0,001 (0,000) | -0,001 (0,000) | 0,001 (0,000) | -0,001 (0,000) | -0,002 (0,000) |
| Female | 0,547 (0,055) | -0,110 (0,030) | 0,560 (0,054) | -0,894 (0,052) | 0,460 (0,041) | 0,546 (0,055) | -0,116 (0,030) | 0,558 (0,054) | -0,895 (0,052) | 0,448 (0,041) |
| Children<12 years | -0,036 (0,080) | 0,039 (0,035) | -0,055 (0,079) | 0,176 (0,051) | -0,110 (0,053) | -0,038 (0,080) | 0,043 (0,035) | -0,056 (0,079) | 0,179 (0,051) | -0,112 (0,053) |
| Married | 0,063 (0,073) | 0,479 (0,037) | 0,120 (0,071) | 0,324 (0,057) | 0,440 (0,054) | 0,068 (0,073) | 0,490 (0,038) | 0,124 (0,071) | 0,331 (0,057) | 0,440 (0,054) |
| Female*children | 0,529 (0,087) | -0,311 (0,046) | 0,500 (0,085) | -0,271 (0,067) | -0,245 (0,065) | 0,534 (0,087) | -0,328 (0,046) | 0,501 (0,085) | -0,278 (0,068) | -0,251 (0,065) |
| Female*married | 0,552 (0,079) | -0,456 (0,045) | 0,466 (0,077) | 0,040 (0,072) | -0,509 (0,063) | 0,546 (0,080) | -0,465 (0,045) | 0,461 (0,077) | 0,040 (0,071) | -0,511 (0,063) |
| Medium edu. | -0,185 (0,039) | 0,045 (0,024) | -0,173 (0,037) | -0,630 (0,038) | 0,721 (0,034) | -0,184 (0,039) | 0,048 (0,024) | -0,171 (0,037) | -0,626 (0,038) | 0,724 (0,034) |
| High edu. | -0,275 (0,054) | 0,406 (0,031) | -0,211 (0,052) | -1,646 (0,070) | 1,508 (0,042) | -0,273 (0,054) | 0,412 (0,031) | -0,208 (0,052) | -1,640 (0,071) | 1,512 (0,042) |
| Equivalent household income | 0,005 (0,003) | 0,031 (0,001) | 0,008 (0,003) | 0,016 (0,002) | 0,033 (0,002) | 0,005 (0,003) | 0,031 (0,001) | 0,008 (0,003) | 0,016 (0,002) | 0,033 (0,002) |
| Second spell | 0,041 (0,047) | 0,521 (0,023) | 0,008 (0,046) | 0,709 (0,035) | 0,341 (0,030) | 0,042 (0,047) | 0,519 (0,023) | 0,008 (0,046) | 0,704 (0,035) | 0,342 (0,030) |
| Third spell | 0,345 (0,070) | 0,685 (0,031) | 0,221 (0,067) | 0,900 (0,047) | 0,489 (0,043) | 0,344 (0,070) | 0,679 (0,031) | 0,219 (0,067) | 0,891 (0,046) | 0,492 (0,043) |
| Fourth spell+ | 0,558 (0,084) | 0,885 (0,035) | 0,280 (0,078) | 1,153 (0,055) | 0,654 (0,052) | 0,561 (0,084) | 0,878 (0,035) | 0,282 (0,079) | 1,144 (0,054) | 0,662 (0,052) |
| Duration dependency | 0,165 (0,018) | 0,085 (0,012) | 0,245 (0,018) | 0,006 (0,014) | 0,034 (0,014) | 0,166 (0,018) | 0,092 (0,012) | 0,246 (0,018) | 0,011 (0,014) | 0,036 (0,014) |
| Spells ongoing at the start of the survey | -0,734 (0,063) | -0,873 (0,041) | -0,879 (0,061) | -0,703 (0,059) | -0,767 (0,054) | -0,732 (0,063) | -0,894 (0,041) | -0,880 (0,061) | -0,722 (0,059) | -0,777 (0,054) |
| <i>Country level</i> | | | | | | | | | | |
| Reg. unempl. Rate | -0,007 (0,004) | -0,044 (0,003) | -0,012 (0,004) | -0,021 (0,004) | -0,069 (0,004) | -0,007 (0,004) | -0,045 (0,003) | -0,012 (0,004) | -0,022 (0,004) | -0,069 (0,004) |
| Finland** | 0,322 (0,133) | 0,731 (0,071) | 0,340 (0,129) | 0,713 (0,120) | 0,679 (0,094) | 0,318 (0,133) | 0,695 (0,071) | 0,332 (0,129) | 0,693 (0,120) | 0,642 (0,094) |
| Denmark | 0,204 (0,189) | 0,222 (0,102) | 0,264 (0,184) | 0,317 (0,156) | 0,016 (0,137) | 0,204 (0,189) | 0,179 (0,102) | 0,258 (0,185) | 0,279 (0,156) | -0,032 (0,137) |
| Belgium | -0,091 (0,139) | -0,417 (0,079) | -0,055 (0,135) | -0,367 (0,130) | -0,626 (0,103) | -0,093 (0,139) | -0,385 (0,079) | -0,050 (0,135) | -0,339 (0,129) | -0,622 (0,104) |
| France | -0,449 (0,135) | -0,148 (0,073) | -0,429 (0,131) | -0,232 (0,117) | -0,153 (0,100) | -0,459 (0,135) | -0,162 (0,074) | -0,439 (0,131) | -0,234 (0,116) | -0,176 (0,100) |
| Austria | 0,094 (0,192) | 0,516 (0,105) | 0,147 (0,187) | 0,707 (0,163) | 0,013 (0,149) | 0,091 (0,192) | 0,557 (0,106) | 0,149 (0,187) | 0,795 (0,163) | 0,014 (0,148) |
| Luxembourg | 0,296 (0,226) | 0,026 (0,132) | 0,240 (0,219) | 0,019 (0,309) | -0,045 (0,203) | 0,274 (0,226) | 0,001 (0,132) | 0,221 (0,219) | -0,084 (0,283) | -0,024 (0,196) |
| Italy | -0,292 (0,204) | -0,245 (0,104) | -0,359 (0,199) | 0,239 (0,161) | -0,681 (0,141) | -0,314 (0,204) | -0,244 (0,104) | -0,378 (0,199) | 0,245 (0,161) | -0,689 (0,141) |
| Spain | 0,094 (0,164) | -0,019 (0,092) | 0,065 (0,160) | 0,146 (0,143) | -0,119 (0,128) | 0,080 (0,164) | -0,000 (0,093) | 0,055 (0,160) | 0,167 (0,142) | -0,113 (0,128) |
| Portugal | -0,247 (0,361) | 0,069 (0,193) | -0,355 (0,354) | 0,639 (0,275) | -0,273 (0,276) | -0,254 (0,361) | 0,056 (0,194) | -0,365 (0,354) | 0,620 (0,276) | -0,277 (0,276) |
| Greece | -0,127 (0,232) | -0,200 (0,122) | -0,215 (0,227) | 0,324 (0,184) | -0,613 (0,164) | -0,153 (0,232) | -0,195 (0,122) | -0,237 (0,227) | 0,314 (0,184) | -0,621 (0,164) |
| UK | 0,194 (0,263) | -0,298 (0,141) | 0,187 (0,259) | -0,782 (0,219) | 0,231 (0,188) | 0,170 (0,263) | -0,275 (0,141) | 0,172 (0,259) | -0,736 (0,218) | 0,224 (0,188) |
| Individual level variance (random effects) | -0,436 (0,040) | 0,971 (0,018) | 0,073 (0,033) | -1,324 (0,023) | 1,275 (0,022) | -0,434 (0,040) | 0,980 (0,018) | 0,076 (0,033) | -1,332 (0,023) | 1,276 (0,022) |

Bold** coefficients indicate significance at a 5% level while ***bold and italic indicates a 10% significance level.

**Germany is the reference category. Note: Year-dummies are controlled for as well, but the results are not presented in the table.

Article 2: Institutional Diversity and the Immigrant Wage Gap: A comparison between the German and British experience with statutory minimum wages

Authors: Anna Diop-Christensen and Vincent Hildebrand

1. Introduction

A comprehensive literature documents a nativity wage gap in Europe and in the ‘settler societies’. However, the size of this gap varies widely across countries even after controlling for education and other observed characteristics (Kesler 2010; Reitz 1998; Adsera and Chiswick 2007; Algan et al. 2010; Antecol et al. 2003). In some countries, wage inequalities between immigrants and natives are considerable, while in others they are small or even non-existent. The question is what drives these disparities in the wage gap between different countries? From studies on the gender wage gap, we know that the size of the pay gap between men and women depends on the existence and level of a statutory minimum wage (Blau and Kahn 2003). As immigrants constitute another vulnerable group over-represented in low-paid jobs, they are also likely to benefit more from minimum wage legislation. This paper applies the insights from gender studies to the nativity wage gap using a natural experiment. In other words, we ask to which extent the introduction of a national minimum wage reduces wage inequalities between immigrants and natives?

A scarce literature suggests that the pay gap between immigrants and natives is smaller in countries or states with a high minimum wage (Antecol et al. 2006; Orrenius and Zavodny 2008; Butcher and DiNardo 2002; Chiswick et al. 2008; Kesler 2010). This also confirms the results from the literature on the gender wage gap. More specifically, Antecol et al. (2006) and Kesler (2010) base their conclusions on a comparison of average wages between native and foreign born in two to three countries, while Chiswick et al. (2008) consider the entire wage distributions instead of merely average wages. However, because countries vary in other ways than the level of the statutory minimum wage (e.g. union strength, collective bargaining coverage, welfare institutions), these studies are not able to identify the independent contribution of minimum wage regulation.

Butcher and DiNardo (2002) address this criticism by comparing differences in minimum wage levels between states and/or over time, which enables them to identify the impact of minimum wage legislation in a more precise manner. In greater detail, they show that as much as 50 % of the increase in the nativity wage gap between 1970 and 1990 is attributable to the decline in the minimum wage in that period (see also Orrenius and Zavodny, 2008).

Common for these studies is that they focus on the ‘settler societies’ (the exception is Kesler, 2010). However, it is not given that the results can be generalised to a European context as the social models differ considerably, not only between the ‘settler societies’ and the European countries, but also within Europe (Hall and Soskice 2001). The Scandinavian countries are characterised by coordinated collective wage bargaining with the participation from strong trade unions and high levels of social expenditures, mainly financed via taxes. Even if the Scandinavian countries do not have a statutory minimum wage, these other institutional features compress the wages at the bottom end of the distribution. In Continental Europe, the welfare state relies on social contributions from those on the labour market. Their labour markets tend to be strongly regulated and although union densities are in decline, trade unions and the tradition of collective bargaining remain strong in many countries. Apart from wage setting via collective bargaining, some countries also have a statutory minimum wage that covers the whole (e.g. Belgium) or part of the labour market (e.g. the construction sector in Germany). The Anglo-Saxon countries represent the system that is the closest to the ‘settler societies’. In greater detail, the welfare state is the very last resort, the labour markets are more flexible and wage bargaining is decentralised due to weak trade unions. This contributes to more wage disparities. Despite of the limited role of collective bargaining, statutory minimum wages was only introduced in the UK and Ireland around the new millennium (Ebbinghaus and Visser 1999; Esping-Andersen 1990; Gallie 2007; Hall and Soskice 2001).

In most of Europe - Scandinavia and the Continental countries - the function of a national minimum wage may therefore already be filled. Likewise a statutory minimum wage, collective bargaining and a comprehensive welfare state decommodify workers and compress wages at the bottom to the potential benefit of immigrants. The few existing comparative analyses confirm this expectation. According to Kesler (2010), even if Sweden does not have a statutory minimum wage, inequalities between foreign born and natives are smaller than in the UK. She argues that these differences occur “...because immigrant/native-born wage gaps are magnified in the UK and minimized in Sweden by policies that shape the overall wage distribution” (Kesler, 2010: 584). In

Australia, the ‘settler country’ where collective bargaining plays a considerable role and welfare outcomes are the most equal Castles (1994), the average wage gap between natives and newly arrived immigrants is smaller than in Canada and the US where the wage setting is more flexible. Nonetheless, high wage mobility appears to pull in the other direction: wages of immigrants are improving more in Canada and the US than in Australia (Antecol et al., 2006; see also Antecol et al. 2003). Wage assimilation may therefore be attained more or less right away in Australia due to high levels of union coverage (see also Chiswick et al. 2008).

The current study contributes to this literature by examining the impact of the introduction of statutory minimum wage policies on the wage gap between natives and non-EU migrants considering the entire wage distribution in the UK and Germany. Apart from having introduced statutory minimum wage regulations in the late 1990s, these countries represent two different social models (the Anglo-Saxon and the Continental European) that vary with respect to general welfare state arrangements as well as the role of trade unions in the wage setting process. We test the hypothesis that the introduction of minimum wage legislation will result in a larger reduction of the nativity wage gap in the UK where workers are more exposed to the market forces than in Germany. The empirical strategy is to exploit the institutional variations by investigating differences in wage distributions, before and after the implementation of minimum wage regulations focusing on one immigrant sector in each country and applying a Difference-in-Difference regression distribution approach (see further discussion in section 3). We use the German Socio-Economic Panel (GSOEP) and the UK Quarterly Labour Force Survey (UK-QLFS).

The structure of the paper is the following: Section 2 describes the institutional context in Germany and the UK. Section 3 presents the data and methodology. Section 4 contains the analysis, which includes descriptive statistics of the immigrant-native wage gap and the results from the distribution regression analysis. Conclusions and policy recommendations are presented in section 5.

2. Institutional context of wage setting

2.1 The German social model at a crossroad

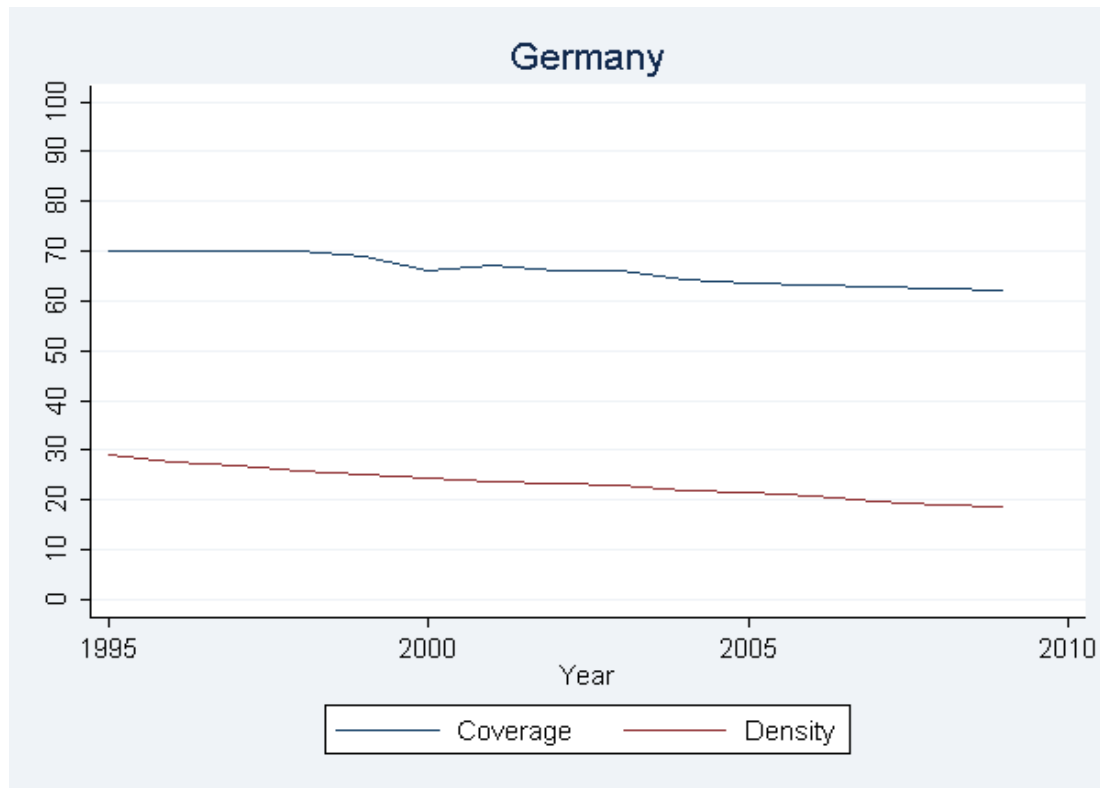
Bismarck laid the cornerstones to the German social model in the late 1880s. The German social model or the Bismarck model builds on a strong corporate tradition and focuses on wage earners

who have ‘standard employment relationships’ (Hinrichs 2010). Hinrich (2010) highlights three hierarchically ordered institutional elements. The first element is the *labour policies* that manifested itself in the comprehensive individual and collective rights which are incorporated into work contracts. These labour policies are part of the ongoing negotiations between the state and the social partners. The second element is the *social insurance schemes*, which provides wage replacement in the case of unemployment and other well defined social contingencies. The social insurance schemes also rest on the concept of ‘standard employment relationships’ as they are financed by contributions from employers and employees. The third element is the *poverty policies*, which are basic and means-tested benefits unrelated to previous earnings. They cover those in need including individuals who are outside the labour force.

2.1.1 Centralised and coordinated wage setting with strong trade unions

A key feature of the German social model is the centralised and coordinated wage setting where wages are concluded by means of collective wage bargaining, a right that is granted to the social partners by the constitution. Collective bargaining coverage reaches around 70 % of all private sector employees, which is also an indication of union strength. Nevertheless, trade union densities are notably lower than coverage rates (see Figure 1). Visser (1986) argues that the low density levels are not a serious drawback, because corporatism and the union’s strong legal position enhances their institutional security and establishes some sort of union monopoly, which reduces their need and incentive to mobilize workers.

Figure 1: Trade union coverage and density, West Germany, 1995-2009 (%)



Source: Visser (2011).

Wage bargaining between trade unions and employers' associations takes place at sector level. Most of these settlements do not apply to the entire country, but rather to specific regions. A notable exception is the construction industry where negotiations are at national level. Generally, there are rather large variations in the coverage rates between different sectors and regions, with a tendency that coverage is relatively low in the service sector (e.g. health and social work) and in the East German labour market (Funk and Lesch 2006; Funk and Lesch 2005). In addition to the sectoral agreements, Germany also has a large number of company agreements, which are concluded directly by trade unions and companies that are not members of an employers' association (Bispinck 2008).

Until the 1990s, most pay agreements were renegotiated on an annual basis, but recently this has changed to every second year. Monthly remuneration, which can vary between blue and white-collar workers, usually consists of several elements. The monthly basic wage is supposed to create a wage floor. On top of this, is the performance-related remuneration, bonuses modulated according

to function and occupation, pay for arduous work and extra hours. Additionally there are also annual payments e.g. vacation bonuses. The number of wage groups varies between four and fifteen according to sector and the spread in the wages ranges from 115 % to 390 % (Bispinck, 2008).

Since the beginning of large-scale migration to Germany, trade unions have been advocating for the inclusion of immigrants into the German social model (Kuhne 2000). One of the first examples is their involvement in the tripartite negotiations within the board of administration of the Federal Institutions for Labour in the 1950s and 1960s. Here, the trade unions fought for and obtained complete equality for immigrants concerning pay and legislation on labour and welfare. Another example relates to the duties of the works councils, where the Employees Representation Act requires that the works council and employer must ensure that there is no discrimination based on race, religion, nationality or origin (§ 75). Furthermore, the work councils also have the duty of “...integrating foreign workers at their place of work and promoting understanding between them and the German workers” (§ 80). This relates to all areas including integrating immigrants into the works councils (Kuhne 2000).

2.1.2 Low pay and the introduction of minimum wages

In Germany - as in most other European countries - trade unions face a declining capacity to settle and enforce attractive wage agreements. Even the collective agreements do no longer automatically protect workers against low pay (Bispinck 2008). At the European level, this is explained by intensified international trade and capital movements within the EU, but also with the rest of the world (Keune 2008). At the national level, additional explanatory factors are the high unemployment rates during the 1990s and until the beginning of the new millennium, the German reunification, declining trade union densities and different waves of labour market flexibilisation and welfare reforms. All in all, these trends have tipped the balance between trade unions and the employers’ associations, giving the latter the power to push for further decentralisation in wage setting. This has resulted in what Keune (2008) refers to as unorganised decentralisation, a term otherwise only used for the UK.

The unorganised decentralisation mainly manifests itself by the inclusion of opening clauses in the sectoral agreements and the increasing use of such clauses. The first example was the introduction of the so-called ‘hardship clauses’ during the first half of the 1990s. ‘Hardship clauses’

made it possible for firms with serious economic troubles to suspend or deviate from the collectively agreed wages during a limited period. In recent years, these clauses are no longer only applicable in the case of economic hardship, but also in order for a company to boost competitiveness. Another sign of the unorganised decentralisation is the introduction of more and more provisions that allow companies to base part of the remuneration on profitability (Bispinck 2008). Finally, firms increasingly leave the employers organisations, which leads to declining collective bargaining coverage (Keune 2008). As a result fewer extended collective agreements are granted (Kirsch 2003).¹²

This trend has given rise to an upcoming low paid segment that affects about 20-25 % of the labour force (Bispinck 2008). A much-debated solution to the problem is the introduction of a statutory minimum wage, which according to its supporters would secure an effective and higher wage floor. In the late 1990s, the first minimum wage regulation was adapted in the different sectors of construction. These sector specific minimum wages were based on regulations adopted to implement the EU directive on the posting of workers. According to this directive, firms that send workers from third countries to the European Union are forced to comply with local labour laws. The introduction of statutory minimum wages in these sectors can therefore be seen as a strategy to negate social dumping. Prior to this law, posted workers were typically paid at the rate of their home country. The first and most far-reaching branch specific minimum wage was introduced in January 1997 in the Main Construction Industry (Funk and Lesch 2005). At the time of its introduction, the hourly statutory minimum wage was 8,69 € in West Germany and 8,00 € in East Germany. According to previous studies, the introduction of a minimum wage in the Main Construction Industry resulted in a positive wage growth effect in both East and West Germany. A negative employment effect is only detected in the Eastern part and is attributed to the relatively larger ‘bite’ of the new minimum wage (König and Möller 2009).

2.2 A residual and liberal British social model

Even though the British welfare state took the first tentative steps prior to the Second World War, it started developing with the Beveridge Report of 1942. Beveridge suggested a comprehensive and universal welfare state, but this was never fully implemented. In the 1980s, the British welfare state

¹² Extended collective agreements are the inclusion of firms that are not members of employers’ associations.

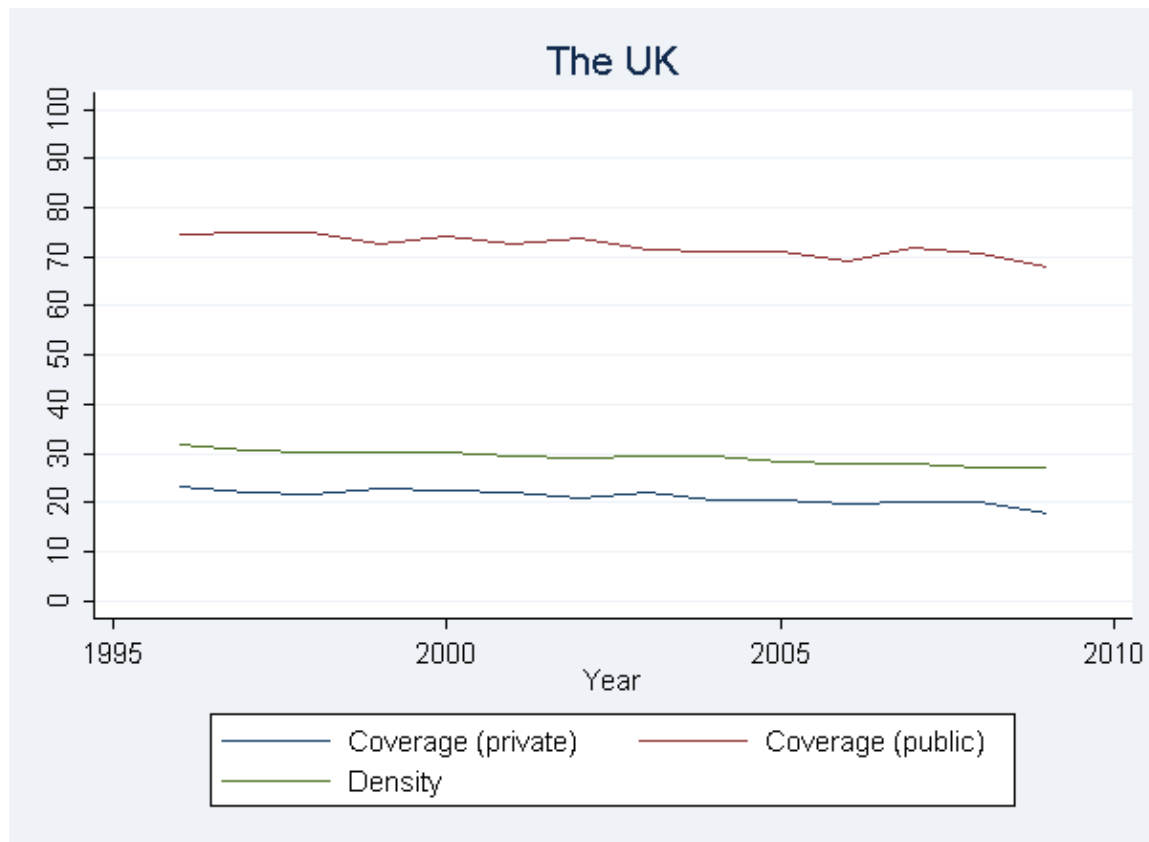
had developed into a residual welfare state based on meagre and means-tested benefits as a last resort when private saving and insurances were exhausted (Harris 2000). Contrarily to the German case, the social partners played a less prominent role in building the British the social model and the state has been the key actor. All in all, the market forces are granted a freer rein in the UK than in Germany.

2.2.1 Weak trade unions and wage setting by management

Due to the absence of corporatism, the British trade unions do not enjoy the same privileged position as their German counterparts. The legal basis of trade unions and their collective bargaining rights are also weaker than in Germany due to a widespread belief in market forces and individualism (Hyman 2003; Fox 1986). During the early years, trade unionists suffered severe punitive sanctions (fines, imprisonments, deportation etc.). When trade unions eventually were legalised in the late 19th century, it was not formulated as a positive right, but it rather defined “...an area of industrial relations ‘immunities’ where the effect of the common law was inhibited” (Hyman 2003: 38-39). Consequently, workers were free to organise themselves and call on a strike, but employers had the liberty to fire them for such actions. Trade unions were also free to pursue collective bargaining, but employers could refuse to negotiate. Even when collective agreements are reached they can easily be overturned as they are ‘binding in honour only’ (Hyman 2003). The British tradition is therefore characterised by unorganised decentralization and voluntarism, which also limits coordination between employers, workers and the state (Hyman 2003; Keune 2008).

Collective bargaining is widespread in the British public sector, but not in the private (see Figure 2). The high occurrence in the public sector is probably also an important explanation for why overall density levels remain relatively high. In the private sector, the management determines the wages of 79 % of the employees unilaterally. An exception is industries that were recently privatised (e.g. Utilities and Transport and Communication). In these industries, collective bargaining coverage reaches more than 60 % (Exell 2008). Consequently, there are large variations in collective bargaining coverage even within the private sector.

Figure 2: Trade union coverage and density, the UK, 1996-2009 (%)



Source: Visser (2011).

As a way to secure a wage floor in low paid sectors, the government established the so-called Trade Boards in 1909. These Trade Boards were the forerunner for the Wage Councils, which defined industry based minimum wages in sectors with low levels of collective wage bargaining coverage. However, the Wage Councils were abolished in 1993 by the Conservative government due to a belief that the minimum wages suppressed employment (Hyman 2003).

In line with the rather reserved and withdrawn role of the British trade unions, they also adopted a rather pacifist strategy towards immigrants. Until the early 1970s, trade unions were even accused of having widespread racism and discrimination against immigrants and ethnic minorities within their own organisation. In order to address this criticism, the unions began to promote equal opportunities and the removal of barriers based on race and ethnic origin. Despite of these efforts, previous research suggests that blacks still have little faith in trade unions when it comes to fighting

racial discriminations and most rather seek the support of The Commission for Racial Equality (Wrench 2000).

2.2.2 Trade unions in free fall and introduction of minimum wages}

The British trade unions have been hit harder by membership defection than in any other European country. This is largely due to the introduction of legislation that limited their legal rights during the Thatcher years (Ebbinghaus and Visser 1999; Towers 1988). Together with the abolishment of the Wage Councils, this has resulted in an increasing problem of in-work poverty. In 1998, about 30 % of British female employees and 11 % of the men were affected by low pay.¹³ In order to defeat this problem, the newly elected Labour Government introduced a statutory minimum wage in April 1999. The new minimum wage was about 5,40 € and thus rather modest compared to the one introduced in Germany. Previous research find that, the national minimum wage did raise the wages at the bottom end of the wage distribution mainly to the benefit of women and young people, but without causing adverse employment effects (e.g. Metcalf 2008). However, there appears to be a problem with compliance, as many still receive a wage that is below the minimum wage (Bargain et al. 2011; Robinson 2002).

3. Research approach

3.1 Data

We use the German Socio-economic Panel (GSOEP) and the UK Quarterly Labour Force Survey (QLFS). Both datasets are standardized household surveys that cover the periods before and after the introduction of minimum wage regulations. The datasets provide extensive information on labour market status, pay, job, and demographic characteristics.

The analysis focuses on male private sector employees from 20 to 65 years in two low-skilled ‘immigrants sectors’. In the case of Germany, we select the Main Construction Sector as this was the largest and first sector where minimum wage regulations were introduced. Due to the fact that there are very few immigrants in the East German sample, we only focus on West Germany.

¹³ <http://www.poverty.org.uk/51/index.shtml?2>

The construction sector is not an ‘immigrant sector’ in the UK, however (see also Kogan 2007). We therefore focus on another low skilled sector, namely the hotel and restaurant industry. In order to secure a sufficient sample size, we pool three years before and after the introduction of the minimum wage regulation in both countries. This means that we use the years 1994-2000 for Germany and 1996-2002 for the UK.

The definition of immigrant status is based on country of birth rather than on citizenship. This definition is more comparable across countries since citizenship legislation differs considerably between the UK and Germany. After deleting immigrants from EU-15 countries, the samples include 1052 observations from GSOEP (509 before and 543 after) of which 363 are immigrants and 3392 observations from the UK QLFS (1741 before and 1651 after) of which 602 are immigrants.

The variable referring to hourly wage is central to the analysis. We construct the variable hourly wage based on last month’s salary and actual hours worked in the case of GSOEP. The variable ‘hourly pay’ is available in the QLFS and it is constructed in a similar way as we defined it in the GSOEP. In both cases, hourly pay is deflated using the Consumer Price Index. The year of the introduction of the minimum wage has the index value 100.

The list of control variables includes measures for age, marital status, educational background, occupational level, health, and regional unemployment rates (see Table 1 below). As evident from this table, we detect a significant increase in average hourly wage after the introduction of the minimum wage only in the case of the UK. There appear to be no major adaptations in terms of the number of hours worked in any of the sectors. However, changes in the distribution of characteristics mainly occur for immigrants in the UK.

Table 1: Description of the data

| | Natives | | | Immigrants | | |
|---------------------------------------|----------------|--------------|--------------|-------------------|--------------|--------------|
| | Before | After | Diff. | Before | After | Diff. |
| German construction sector | | | | | | |
| Hourly wage (€) | 13,52 | 13,76 | 0,24 | 12,13 | 12,26 | 0,13 |
| Hours per week | 41,18 | 42,14 | 0,96* | 41,18 | 41,37 | 0,19 |
| Average age | 40,25 | 40,74 | 0,49 | 42,12 | 43,30 | 1,18 |
| High school degree (%) | 70,65 | 74,03 | 3,38 | 39,65 | 27,66 | -11,99 |
| Low occupation (%) | 4,83 | 5,05 | 0,22 | 29,39 | 21,27 | -8,12 |
| Medium occupation (%) | 61,83 | 64,78 | 2,95 | 52,75 | 58,43 | 5,68 |
| High occupation (%) | 33,34 | 30,19 | -3,15 | 17,86 | 20,30 | 2,44 |
| Married (%) | 61,54 | 62,71 | 1,17 | 63,17 | 77,89 | 14,72* |
| Health problems | 56,74 | 55,86 | -0,88 | 51,88 | 52,11 | 0,23 |
| The UK hotel/restaurant sector | | | | | | |
| Hourly wage (£) | 5,08 | 6,00 | 0,92* | 4,61 | 5,31 | 0,70* |
| Hours per week | 48,02 | 48,50 | 0,48 | 45,64 | 45,61 | -0,03 |
| Average age | 32,50 | 32,88 | 0,38 | 34,79 | 32,67 | -2,12* |
| No/low educational level (%) | 21,39 | 19,99 | -1,40 | 67,70 | 75,51 | 7,81* |
| Medium educational level (%) | 64,11 | 64,01 | -0,10 | 21,31 | 17,23 | -4,08 |
| High educational level (%) | 14,49 | 15,93 | 1,44 | 10,99 | 7,26 | -3,73* |
| Low occupation (%) | 66,51 | 52,54 | -13,97* | 78,34 | 55,57 | -22,77* |
| Married (%) | 36,96 | 33,11 | -3,85* | 75,92 | 67,75 | -8,17* |
| Health problems (%) | 20,60 | 21,69 | 1,09 | 17,55 | 18,15 | 0,60 |

* Indicates a significance level of 5 %.

3.2 Empirical strategy

This study seeks to identify the impact of mandated minimum wage on the nativity wage gap across the distributions of wages in two sectors in Germany and the UK. We employ the distributional regression method proposed by Chernozhukov et al. (2013) in a Difference-in-Difference (DID) setting. This approach decomposes the impact of minimum wage regulation into a wage structure or price effect and a composition effect using counterfactual wage distributions. A similar strategy was

recently adopted by Bargain et al. (2011) to examine the distributional impact of a national minimum wage on the gender pay gap in the UK and Ireland.

We assume that each observation is drawn from a joint distribution function $F(w, Z, G, T)$ where w is wage, Z is a vector of wage determining personal attributes, G and T are indicator variables capturing group membership and the institutional settings prevailing at time h . In this context, G is an indicator variable equal to 1 (0) if the individual is foreign-born (native-born) and $T = 1$ (0) if the period of observation occurs after (before) the introduction of the minimum wage. Hence, $F^{g,h}(w) = F(w | G = g, T = h)$ denotes the conditional distribution of wages observed among members of group g with institutional setting at time h . For our purpose, it is convenient to express $F^{g,h}$ as the counterfactual marginal wage distribution of group $G = g$ at $T = h$ integrated over the personal attributes of group $G = i$ prevailing at time $T = j$:

$$F^{g,h}(w) = F_{i,j}^{g,h} = \int_{z \in \Omega_z} F(w | Z = z, G = g, T = h) dF(z | G = i, T = j)$$

Using these notations, we can express the *observed* distributional change in the nativity wage gap following the introduction of statutory minimum wage regulations as:

$$\Delta G = \underbrace{[F_{1,0}^{1,0} - F_{0,0}^{0,0}]}_{(B)} - \underbrace{[F_{1,1}^{1,1} - F_{0,1}^{0,1}]}_{(A)}$$

where (B) and (A) capture the immigrant wage gap before and after the introduction of a minimum wage – therefore *before* and *after*.

Equation above captures the impact of the reform under fairly implausible conditions. In particular, it requires that immigrants and natives share the same distribution of wage-determining attributes and that the new regulation does not trigger any compositional changes in these characteristics. To address this issue, we follow Bargain et al. (2011) and construct a series of counterfactual distributions, which allow us to impose that both groups share the distribution of characteristics, which we fix to that of the foreign-born. We can also construct:

$$F_{1,0}^{0,0}(w) = \int_{z \in \Omega_z} F(w | Z = z, G = 0, T = 0) dF(z | G = 1, T = 0)$$

the counterfactual marginal distribution when the wage structure is that of native workers before the policy change with the distribution of foreign-born characteristics before the reform. Likewise, $F_{1,0}^{1,1}$ is the counterfactual distribution of *immigrant workers before* if they were paid as immigrant workers *after* and $F_{1,0}^{0,1}$, the counterfactual wage distribution of *immigrants before* if they were paid as *natives before*.

After imposing that both groups exhibit the same distribution of characteristics by fixing their observable attributes to that of immigrants, we express the change in the nativity wage gap as:

$$dG_1 = [F_{1,0}^{1,0} - F_{1,0}^{0,0}] - [F_{1,1}^{1,1} - F_{1,1}^{0,1}]$$

which can be further decomposed as:

$$dG_1 = \underbrace{[(F_{1,0}^{1,0} - F_{1,0}^{0,0}) - (F_{1,0}^{1,1} - F_{1,0}^{0,1})]}_{PE} + \underbrace{[(F_{1,0}^{1,1} - F_{1,0}^{0,1}) - (F_{1,1}^{1,1} - F_{1,1}^{0,1})]}_{CE}$$

where *PE* is the institutional impact of the minimum wage reform (price effect) while *CE* captures the possible compositional change in foreign born characteristics following the reform, possibly through employment effects. Each counterfactual distribution $F_{i,j}^{g,h}$ is easily estimated by applying the distributional regression approach of Chernozhukov et al. (2013). Despite exploiting a source of plausibly exogenous variation, our decomposition exercise remains nonetheless somewhat descriptive. Any causal interpretation comes with two non-negligible caveats. As most contributions focussing on explaining the source of wage differential (see Butcher and DiNardo 2002; Bargain et al. 2011), our decomposition exercise ignores general equilibrium effects – the distribution of personal characteristics is assumed independent of the wage structure. Furthermore, the identification of the ‘true’ impact of the reform depends on the standard parallel trend assumption that no other contemporaneous shocks (observed and/or unobserved) had a differential impact on the wage structure of native- and foreign-born workers during the period covered by our study.

4. Results

4.1 Descriptive analysis

Figure 3 and 4 below presents the wage distributions of immigrants and natives, before and after the introduction of minimum wage regulations in the selected sectors. Prior to April 1999, the wage distributions in the UK hotel and restaurant sector are more concentrated at the bottom end, which also corroborate the existence of a downward pressure on wages in countries with a decentralised wage setting (Kesler 2010). Before the introduction of the minimum wage, immigrants were over-represented in this part of the wage distribution. After the implementation of minimum wage legislation, the distributions of immigrants and natives are more similar. These findings are indeed a first indication that the minimum wage may have benefited more immigrants than natives in the UK.

The wages in the German construction sector is more spread, which probably can be explained by the collectively agreed occupational remuneration. The ‘peak’ in the immigrant’s wage distribution around an hourly wage of 10 € (both before and after) indicates an effect of some sort of minimum wage regulation in Germany. The differences in the wage distributions of immigrants and natives between the two periods are less pronounced than in the case of the UK and if anything, they appear to have increased in the second period.

Figure 3: Kernel density estimates in Germany

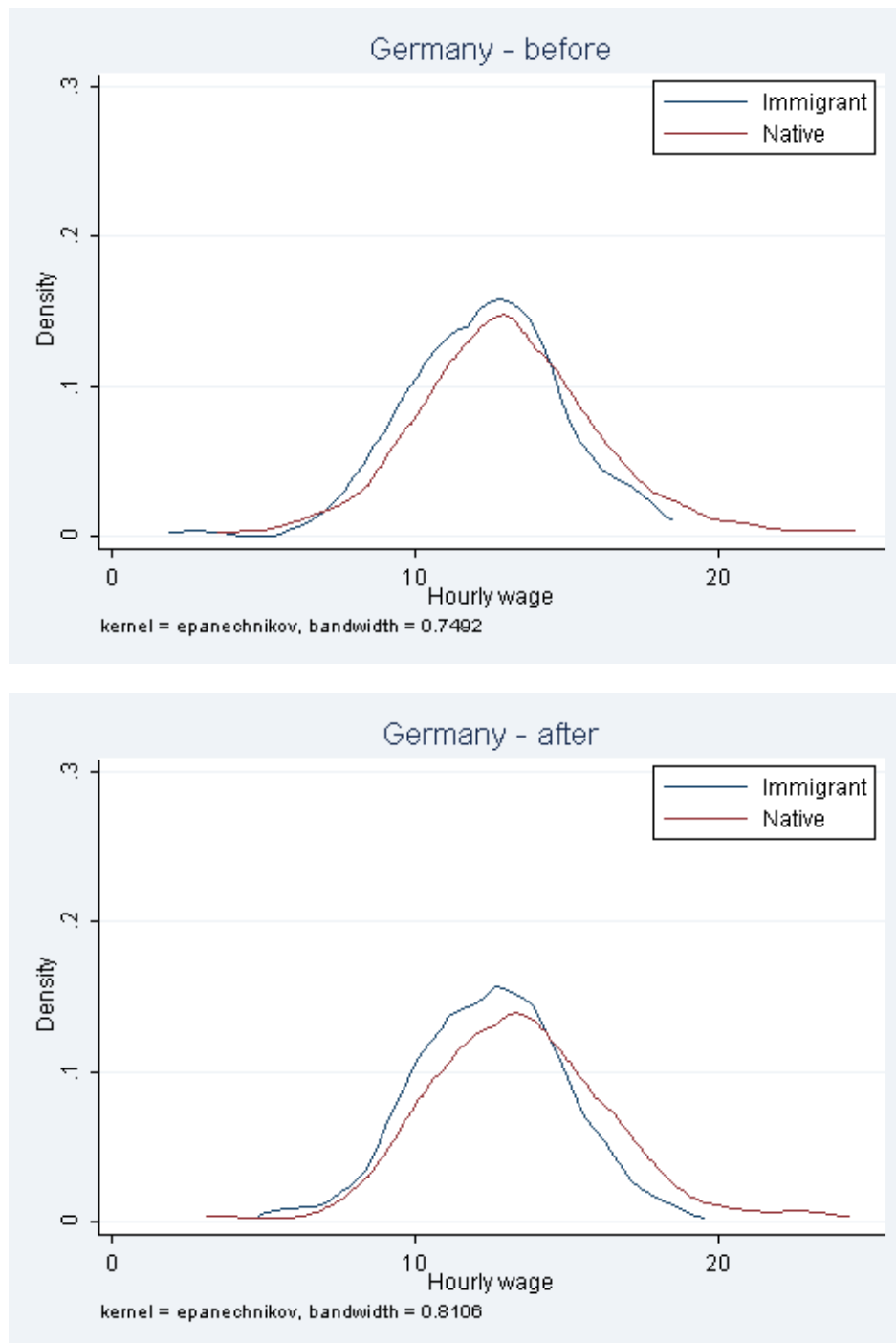
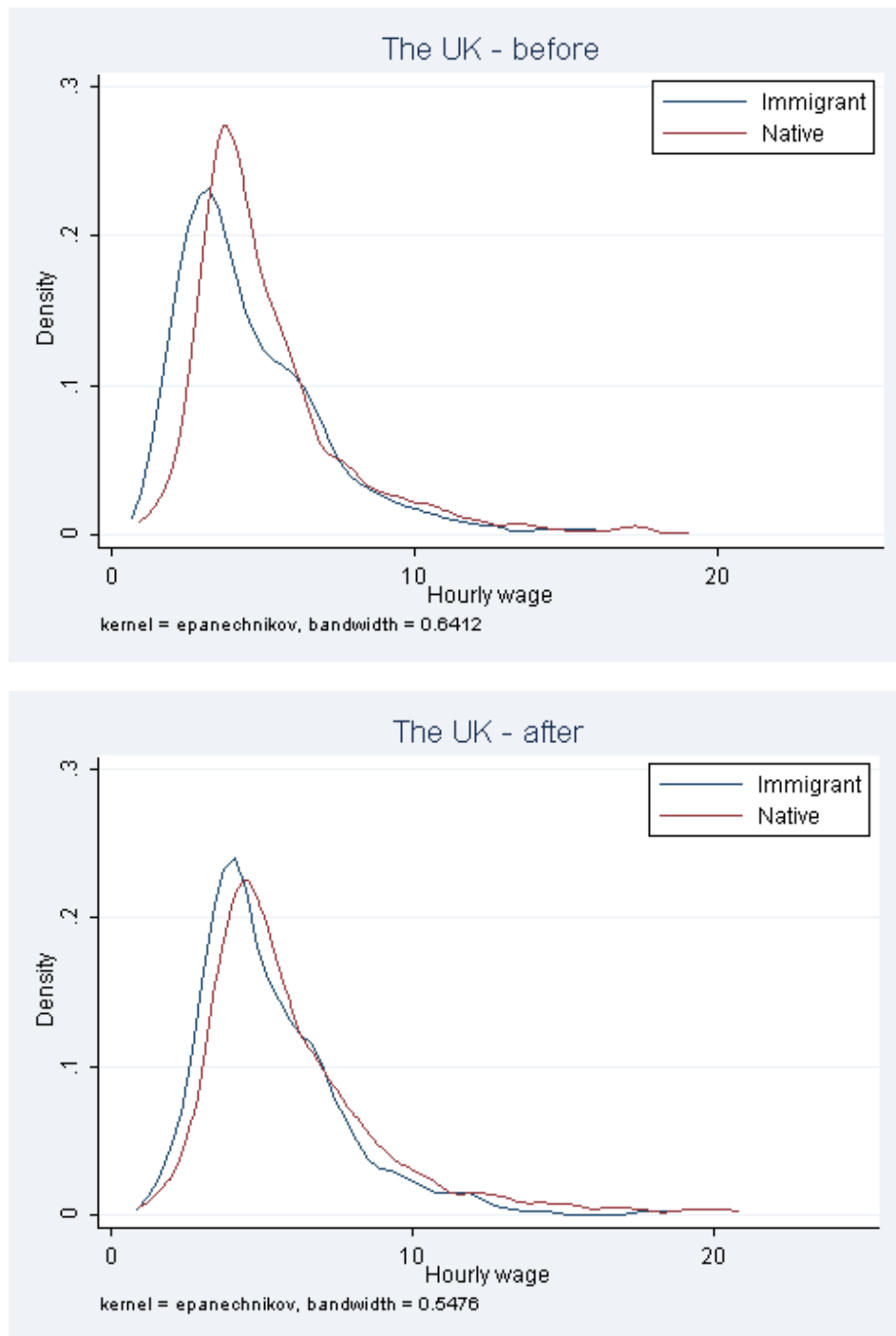


Figure 4: Kernel density estimates in the UK



When examining average wage differences between immigrants and natives before the introduction of statutory minimum wage regulations, it is evident that the nativity pay gap is similar

in the two sectors (see Table 2). In greater detail, on average immigrants in the British hotel and restaurant sector and the German construction industry earned around 10 % less than natives. There appear to be no reduction in the average nativity wage gap after the implementation of minimum wage legislation.

Table 2: Average wages of immigrants and natives

| | | Natives | Immigrants | Difference % |
|--------------------------------|--------|----------------|-------------------|---------------------|
| Hourly wage Germany (€) | Before | 13,52 | 12,13 | 10,28* |
| | After | 13,76 | 12,26 | 10,90* |
| Hourly wage the UK (£) | Before | 5,08 | 4,61 | 9,25* |
| | After | 6,00 | 5,31 | 11,5* |

* Indicates a significance level of 5 %.

4.2 Multivariate analysis

Figures 5 and 6 present three sets of distribution functions for each of the countries. The first set displays the wage distributions of immigrants and natives, before and after the introduction of the minimum wage in Germany and the UK. The figures in the middle show the counterfactual distributions where the covariates are fixed to those of *immigrants*. The last set of distributions display the counter-factual distributions where the covariates are fixed to *immigrants before*.

Figure 5: Cumulative wage distribution functions for immigrants and natives, before and after in Germany

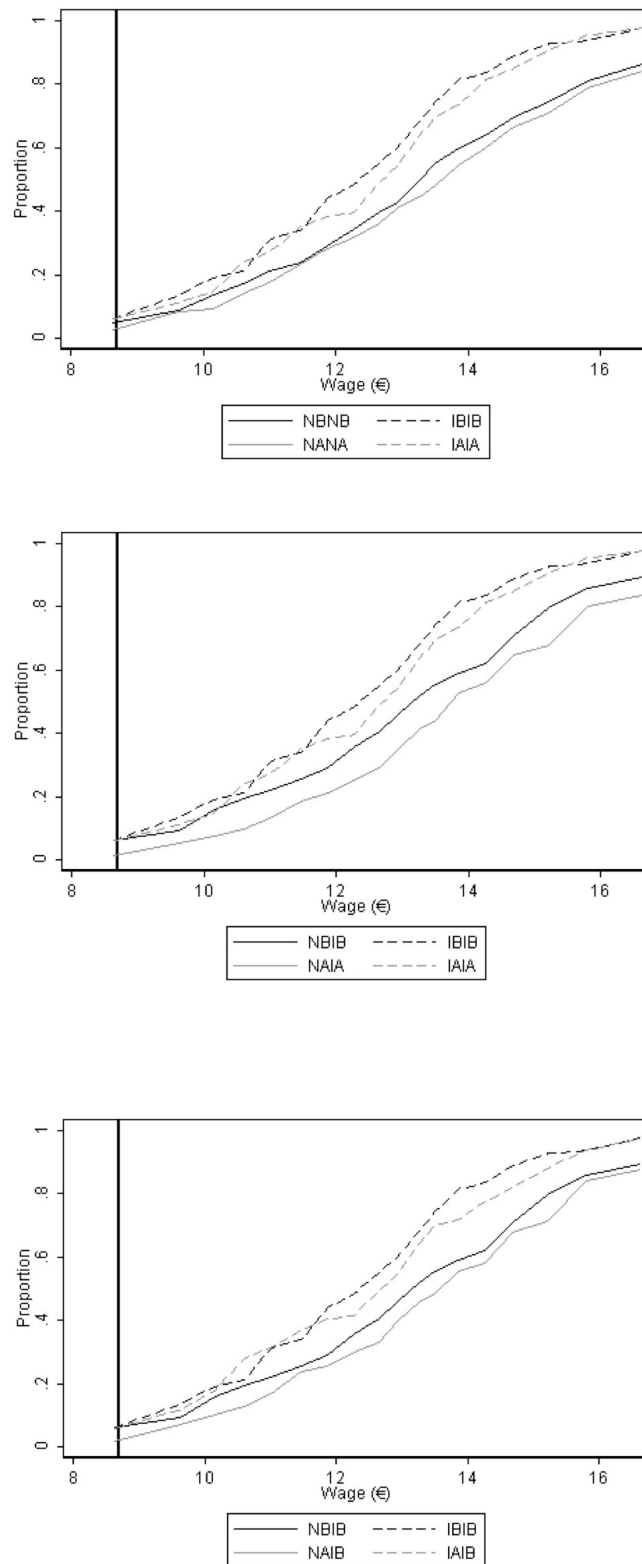
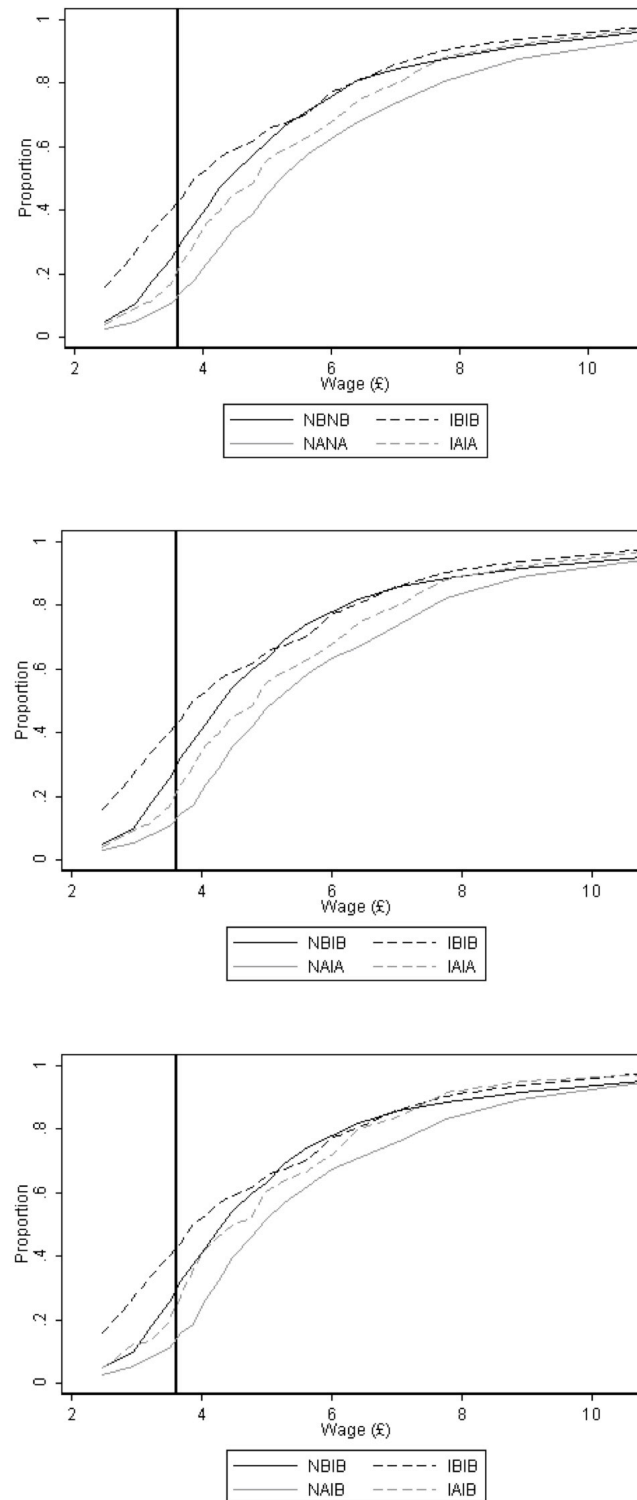


Figure 6: Cumulative wage distribution functions for immigrants and natives, before and after in the UK



Prior to April 1999, a relatively large proportion of employees - especially immigrants - in the British hotel and restaurant sector received an hourly wage that was lower than 5,40 € or 3,60 £. This is even the case when we attribute similar characteristics to natives and immigrants. As expected, this proportion was reduced after the implementation of minimum wage legislation, more so for immigrants than for natives (Figure 6). In the German construction sector, however, very few - both natives and immigrants - earned less than 8,69 € even before January 1997. This is also in line with Apel et al. (2012), who find that less than 4 % of the West German construction workers earned an hourly wage that is below this threshold. Even though there are great wage differences between immigrants and natives in the German construction sector, these differences are less pronounced at the bottom end of the distribution.

Figures 7 and 8 offer a closer inspection of the nativity wage gap, before and after in Germany and the UK receptively. More specifically, we present the total nativity wage gap before and after the introduction of a statutory minimum wage (first set of figures). This gap is divided into a price effect (second set of figures) and a composition effect (third set of figures).

Figure 7: The nativity wage gap, before and after the introduction of minimum wages in Germany

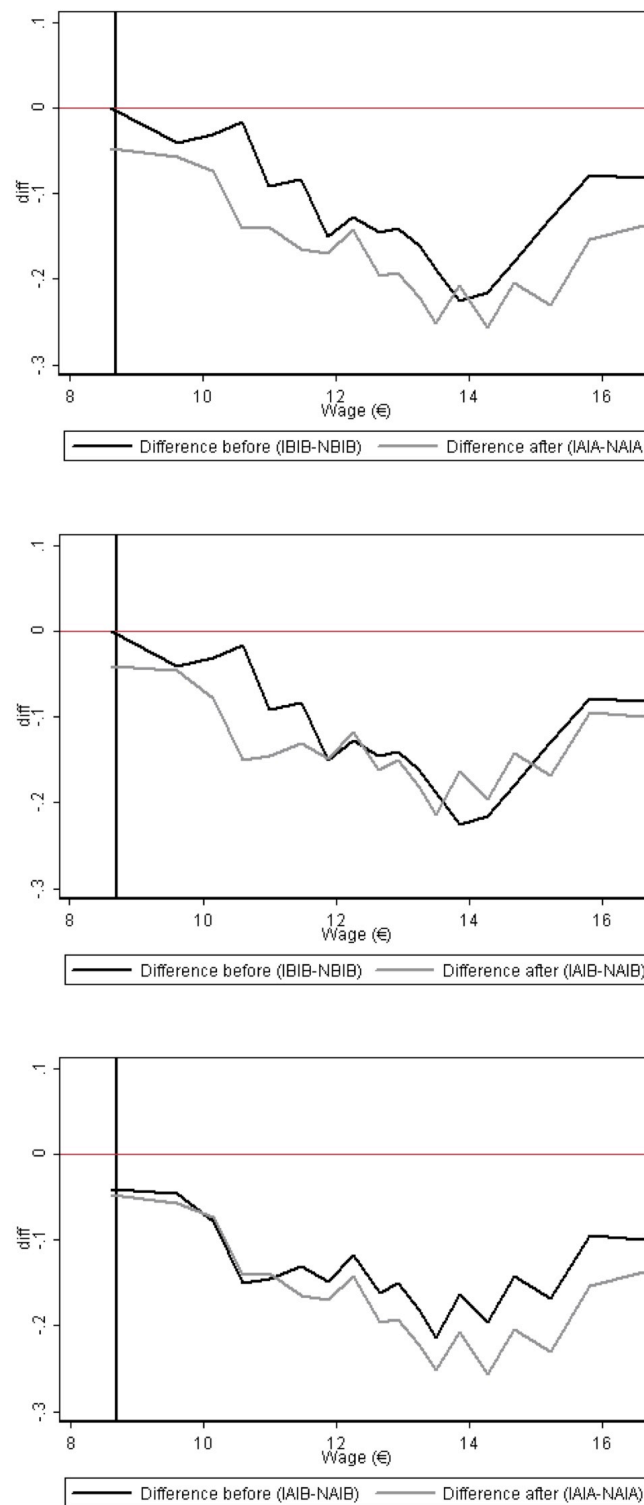


Figure 8: The nativity wage gap, before and after the introduction of minimum wages in the UK

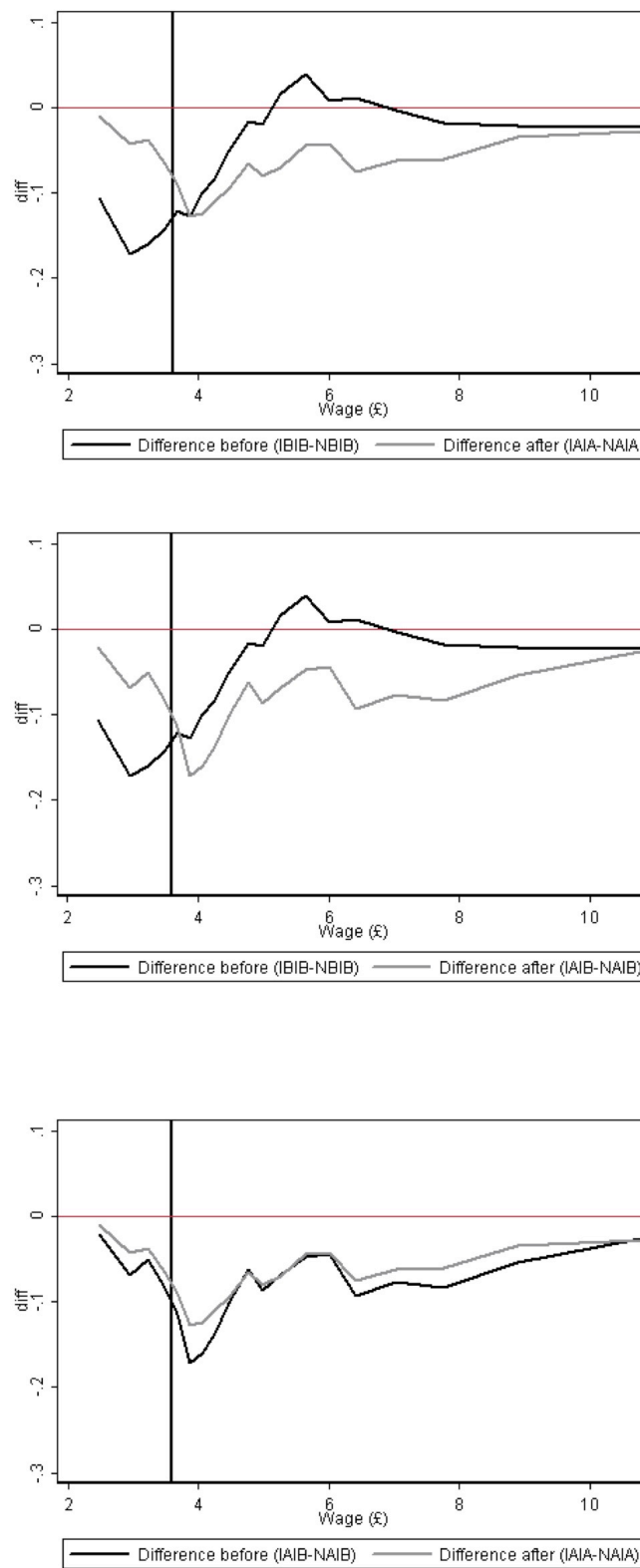


Figure 7 suggests that the new minimum wage did not affect the gap in Germany at any point of the wage distribution. The wage gap between immigrants and natives in the German construction sector is quite considerable with the exception of the bottom end of the distribution. These findings indicate that the strong trade unions had created a ‘wage floor’ to the benefit of low paid immigrants. Nevertheless, there could be a price to pay in terms of reduced upward earnings mobility, which is also in line with Chiswick et al. (2008).

The argument of Chiswick et al. (2008) is to some extent corroborated by our analysis of the British hotel and restaurant sector. Prior to the introduction of minimum wage regulations, we identify a wage gap only at the very bottom end of the distribution (see Figure 8). The nativity wage gap that lies below the threshold for the new minimum wage has diminished after April 1999. However, during the same period, the wage gap has increased in the higher parts of the distribution.

Figures 9 and 10 display the reductions in the nativity wage gap in Germany and the UK as a result of the introduction of a statutory minimum wage. The red lines represent a 95 % confidence interval. The first set of figures show the total reduction in the wage gap. This reduction is decomposed into a price effect or unexplained part (middle set of figures) and a composition effect or explained part (last set of figures).

Figure 9: Difference in difference in the nativity wage gap in Germany

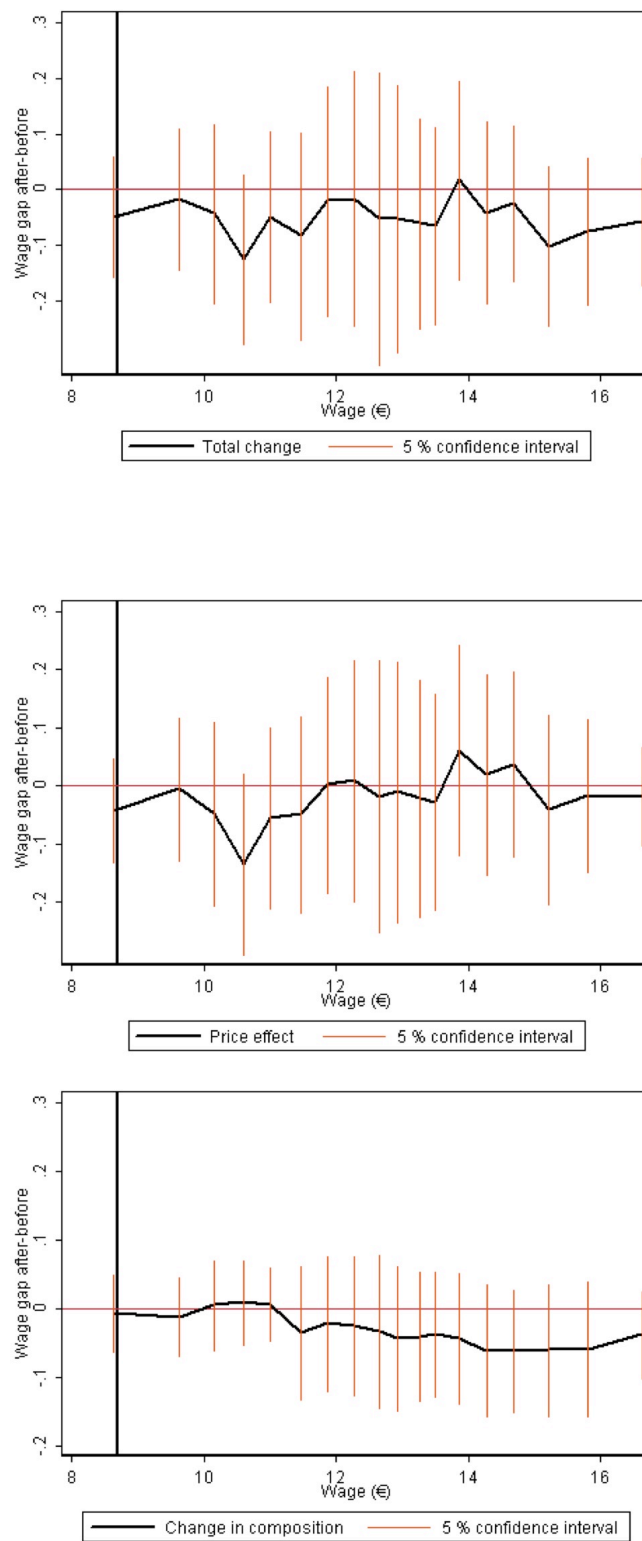
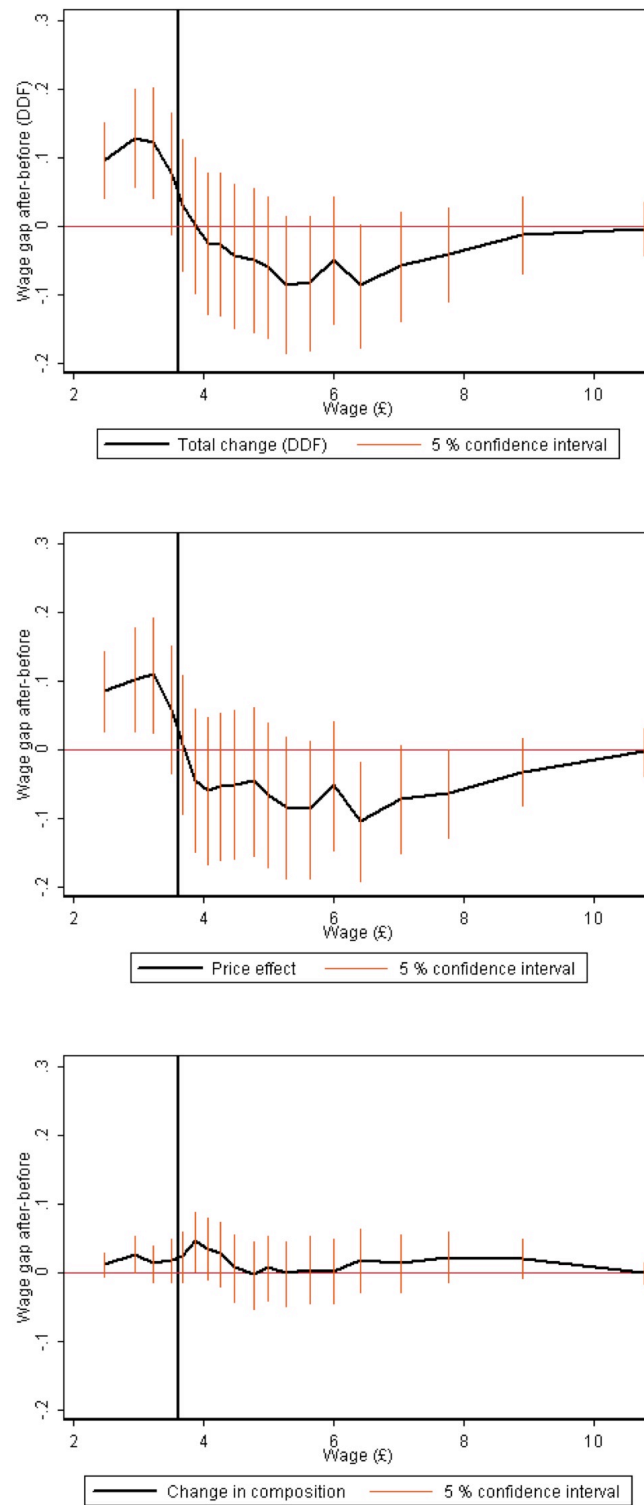


Figure 10: Difference in difference in the nativity wage gap in the UK



As evident from Figure 9 and as Figure 7 also indicates, the change in the nativity wage gap is not statistically significant in the case of Germany at any point of the wage distribution. In the case of the UK, the change in the wage gap due to the implementation of the national minimum wage is statistically significant only at the bottom end of the wage distribution. Most of this reduction was due the price effect rather than changes in composition (Figure 10).

5. Conclusion

The variations in the nativity wage gap across countries give rise to several questions: What are the drivers these variations? Can we learn from cross-country comparisons? Is a statutory minimum wage a solution for reducing wage inequalities between immigrants and natives in Europe? The aim of this study was to provide new insights about these largely unanswered questions. We use a natural experiment to investigate the implications of minimum wage legislation on the nativity wage gap in two immigrant sectors in German and the UK. Further than the existing literature, we disentangle the impact of minimum wage regulation from other institutional features and we examine under which circumstances the effect occur. Additionally, we provide comparative evidence about distributional outcomes from a European setting.

The findings in this article suggest considerable differences in the relative wage disadvantage of immigrants in German and the UK, two countries that represents two different social models. Descriptive statistics show that on average immigrants in the British hotel and restaurant industry and the German construction sector face a similar wage penalty of about 10 %. If we look at the entire wage distribution, differences between the British and German sector becomes evident, which also confirms the necessity to examine difference along the whole distribution. More specifically, we find that the wage gap between immigrants and natives is larger in Germany than in the UK except from at the bottom end of the distribution. We attribute the absence of a wage gap at the bottom in Germany to their strong corporate tradition where mutually dependent social partners set the wages for the majority of workers and the welfare state decommodifies the workers. This is also in line with Chiswick et al. (2008) who argues that even though immigrants at the bottom of the labour market tend to benefit the most from strong trade unions and collective bargaining, such type of wage setting impedes upwards mobility (see also Kogan 2007).

Consequently, the implementation of statutory minimum wage regulation had a different effect in the two sectors. In Germany, the introduction of minimum wage legislation did not affect the nativity wage gap, while it significantly reduced the gap at the bottom end of the wage distribution in the British hotel and restaurant industry. Our results therefore confirm that a national minimum wage can act as an instrument for reducing the problem of in-work poverty for immigrants and we have indications that this is particularly relevant for decentralised and liberal economies like the British. It indeed appears to be a way to shelter immigrants from the market forces as also stated by Kesler (2010). In countries where collective bargaining and a relatively generous welfare state has already decommodified the workers, introducing a minimum wage seem to be a less efficient tool for minimizing wage inequalities between immigrants and natives.

Nevertheless, we should keep in mind that the German construction sector may represent a special case as wage regulation in this sector is more centralised and coordinated than in the rest of the economy. This is because the platform for negotiations is the national arena rather than the regional level. As a result, the introduction of a countrywide minimum wage in Germany (to be implemented in January 2015) may yield larger effects even in a corporate setting. This is also because the trend towards unorganised decentralisation has been increasing since the late 1990s.

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Article 3: Beating the ‘unemployable’ with a stick? The experience with using strong economic incentives towards long-term unemployed immigrants in Denmark

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Abstract

In 2006, the Danish government adopted the 300-hour rule, a ‘make-work-pay’ policy that targeted married immigrants receiving social assistance on a long-term basis. Accordingly, each spouse was required to work 300 hours within a two-year period. In case of non-compliance, social welfare workers had to enforce a permanent sanction, which resulted in a reduction in the household income of 18000 € yearly. This article draws on two waves of qualitative interviews with immigrant women and social welfare workers affected by the policy. Apart from providing insights into how a marginalised group copes with the potential income loss, this study also shows that when the social security of the families came at risk, it triggered an atmosphere of emergency among social welfare workers. This emergency atmosphere changed the social welfare workers’ case management and they found new ways to assist their clients.

Keywords: Coping-behaviour, benefit sanctions, immigrants, marginalisation, social assistance, street-level bureaucracy.

1. Introduction

During recent years, the European welfare states have, to various degrees, undergone significant transformations (e.g. Morel et al., 2012). At the root of this transformation is the idea to ‘make-work pay’ for the unemployed. As a result, policy makers in most countries have introduced ever-stricter eligibility criteria often accompanied by benefit sanctions (Venn, 2012). This idea is in line with job search theory, which predicts that benefits reduce job search intensity and make the unemployed less likely to accept a job offer (Mortensen, 1977). An extensive economic literature supports this expectation by showing that transitions to employment increase shortly before benefit exhaustion or in the case of a benefit sanction (for an overview see Holmlund, 1998).

An aspect, which has received less attention by previous studies, is the significant implications that ‘make work pay’ policies have for affected individuals. This is particularly the case for those at the margin of the labour force, but also for the social welfare workers that are requested to sanction their clients. This study explores the lived experiences of a Danish ‘make work pay’ policy introduced in spring 2006 – the so-called 300 hour rule – that mainly affected immigrant women receiving social assistance on a long-term basis as well as the social welfare workers who implemented the policy. In greater detail, social welfare workers were requested to cut the social assistance from clients who did not work 300 hours in non-subsidised employment during a two-year period. Drawing on two waves of in-depth interviews with both groups, I discover how the different actors experience and cope with the pressure of this policy.

The outline of the paper is the following: next section provides insight about the Danish policy context and the 300-hour rule. The research approach is presented in the third section. Section four and five contain the findings from the two waves of interviews with the immigrant women and the social welfare workers that were in contiguity with the policy. The article concludes with a general discussion accompanied by recommendations future research.

2. The 300-hour rule and the Danish policy context

At the beginning of the millennium, only about 40 % of non-western immigrant women were gainfully employed, as compared to 73 % of native Danish women (Regeringen, 2005). Most non-employed immigrant women received social assistance, often on a long-term basis. Still, they had to

be in regular contact with the public employment agency where social welfare workers were in charge of monitoring labour market availability and preparing an employment strategy. If the employment barriers were insufficient qualifications, the women were typically requested to participate in active labour market programmes. Accordingly, a large proportion of the women took part in language courses, but also further schooling, education, or internship (Beskæftigelsesministeriet, 2005; Geerdsen et al., 2003). If health problems were the obstacle, welfare workers could initiate an unravelling of the client's case consulting the relevant experts. In case labour market integration was deemed unrealistic, the client had to be 'moved' elsewhere in the system (disability pension, flex-job etc.).

2.1 The 300-hour rule – part of a new integration strategy

The accession of the Liberal/Conservative minority government in 2001, supported by the anti-immigration Danish People's Party signified a change in the policy towards immigrants in Denmark. The new government believed that the previous integration efforts were not efficient as especially the married immigrant women had too few employment incentives. Particularly Muslim women were accused of having no real intention to work due to their traditional values: *"It is to a great extent about culture... If I have to be completely honest then I doubt whether all immigrants are ready to accept a job... It may be that some of them have chosen to organise it so that the husband searches for a job, while the wife stays at home. One can have an opinion about it, but it is their choice. However, this does not mean that the public needs to finance this choice"* (Hjort Frederiksen, 2007). This view seemed to be backed by quite a few research and consultant reports (e.g. LG Insight, 2004; Mogensen & Matthiessen eds., 2002; Velfærdskommissionen, 2005). Additionally, the government imputed the social welfare workers of shelving the cases of the weakest immigrant women and sometimes lumping them together in activation that did not upgrade their skills, but which rather functioned as 'storage' (Regeringen, 2005).

In this spirit, the 300-hour rule was introduced in spring 2006. A first objective was to improve the economic employment incentives for immigrant women.¹⁴ For instance, a couple with

¹⁴ Even though the new rule in principle applied to all individuals receiving social assistance, the measure was de facto targeted at immigrant women from Middle-Eastern countries. The government hit their target spot on as more than 90 % of the covered families had immigrant background (Ankestyrelsen, 2007; Bjerregaard Bach & Larsen, 2008; Goul Andersen, 2007).

two children could lose about 1050 Euro net per month, being left with only 1329 € (Table 1). This is substantially below the minimum budget as defined by the Danish Council for Marginalised (The Danish Council for Marginalised, 2003). Regardless of definition, such families would be left in severe poverty.

Table 1: Example of the income cut for a married couple with two children (€)

| | Both spouses receive social assistance | Discontinuation of social assistance for one spouse |
|-------------------|--|---|
| Social assistance | 3194 | 1597 |
| Tax | 819 | 268 |
| Total net income | 2377 | 1329 |

Source: Socialrådgiveren, 2007

A second objective was to restrict the discretionary power of social welfare workers in order to make sure that the street-level bureaucrats would enforce the availability requirements in accordance with the law. In other words, social welfare workers were required to identify and notify affected social assistance recipients six months before they risked losing their benefit entitlements. At least one month prior to the due date, clients had to be consulted. If their client still did not comply with the unambiguous employment requirement, the social welfare worker had to remove the social assistance from one of the spouses whereas before availability requirements were blurry, and social welfare workers had substantial discretion to choose whether to sanction or not. This type of legislation can be viewed as an instrument of political control as it defines formal structures and procedures that later can become subject to scrutiny (McCubbins et al., 1987).

2.2 The scope and evolution of the 300-hour rule

Not all long-term social assistance recipients were covered by the 300-hour rule, however. The new rules applied solely to couples living in marital union and as mentioned earlier, it was only possible to withdraw the social assistance from one of the spouses (Bjerregaard Bach and Larsen, 2008).¹⁵ Furthermore, the 300-hour rule only concerned those who were able to work. Assessments were based on so-called ‘matching-groups’, which indicated to which extent qualifications could match the requirements of the labour market. When the 300-hour rule was introduced, there were five matching-groups (by 2010, this was reduced to three). The lowest matching-group suggests a good match and vice versa. Only matching-group five (and by 2010 only matching group three) was exempted from the new policy as they were deemed to have no labour market resources. Almost 50 % of the affected clients belonged to matching-group four for whom ‘...*only very limited job functions are possible*’ (see also Bjerregaard Bach and Larsen, 2008; Goul Andersen, 2007). However, clients could be temporarily excluded during the unravelling of their case.

The scope of the so-called 300-hour rule has also varied over the years. When it was first introduced and during a transition phase, social assistance recipients were requested to work at least 150 hours in non-subsidised employment during one year. In 2008, the employment requirements were augmented to 450 hours, and the sanctions were extended to all married couples rather than jobless households only. By July 2011 the requirement was changed to 225 hours yearly, but this was never put into practice due to the abolishing of the scheme by the incoming centre-left government in September 2011 (Frederiksen, 2011). In the following, the label ‘300-hour rule’ applies to all variations above.

3. Methodology

This study pursues a qualitative research approach in order to explore the mechanisms between economic incentives and the labour market orientation and integration of a group at the very margin of the Danish labour market. The sample is composed of social assistance recipients from non-western countries who had received a notification from the municipality and thus risked losing their benefit entitlements as well as social welfare workers who had experience with implementing

¹⁵ Including married couples only was with the view mainly to affect immigrant households. Because it is much more common for Danes to live together without being married than it is for immigrants, the proportion of immigrants increase if only married couples are include.

the 300-hour rule. Interviews were conducted during the spring/summer 2007 and in the autumn 2010 with 24 participants (12 social assistance recipients and 12 social welfare workers). About half of the participants were interviewed in the first wave and among them seven were reinterviewed in 2010 in order to explore changes over time. The individuals whom I interviewed for the first time during the second wave of interviews were asked to provide retrospective information when relevant. This article includes the experiences of 20 participants and thus information from four interviews is disregarded. Two interviews with social welfare workers are excluded because I discovered that they had very limited experience with non-western immigrants and the 300-hour rule in general (only one to two clients). I also ignore the experience from two interviews with social assistant recipients. As this study in the end focuses on problems related to the labour market integration of immigrant women, I do not use the information from one male participant. Another interview is unusable because the person thought that I was a social welfare worker who could provide legal and/or practical help.

Examining the experiences of a small and stigmatised group represent certain challenges. For instance, the recruitment strategies often rely on informal networks rather than randomised samples (see also Rawsthorne, 2012). In this case, I established contacts with the immigrant women via different channels (contacts from social welfare workers, networks and immigrant organizations).¹⁶ As for the social welfare workers, I contacted senior public servants at municipality level who could direct me to the colleague(s) who had the most experience with the 300 hour rule. Information about individual identity and municipality is not disclosed in order to ensure participation and facilitate honest answers.

All interviews are semi-structured and used to document participants' shared experiences and opinions about the 300-hour rule. Interviews are framed around a few general questions. The framework of questions is based on a telephone inquiry among all Danish municipalities conducted in April 2007 and conversations with representatives from immigrant organizations. During these talks, I obtained an overview of the mechanisms triggered by the 300-hour rule. I thereafter started conducting interviews. The first interviews were rather unstructured in order to discover the field in greater detail, while the last became more focused. Rather than transcribing interviews in full length, I wrote out important parts and took additional notes. In the end, I produced a summary of

¹⁶ One interview was conducted by Muller, Andersen, Ejrnæs & Larsen (2010).

each interview, which was sent to respondents in order to obtain their approval.¹⁷ The quotes in the text have been selected with the purpose to support a specific argument and thus I do not claim that they represent the views of all interviewees (see also Rawsthorne, 2012). Note also that the quotes are translated with possible mistakes, underlining the women's poor language proficiency.

4. Participants

The social assistant recipients are all Muslim women from non-western countries. With the exception of one, everyone arrived as refugees/asylum seekers or as relatives hereof. They are 25-50 years old and had two to five children below 18 years at the time of the first interview. The sampled women represent various profiles with respect to how they were affected by the legislation, their educational level, ethnic group, and level of integration into the Danish society (see Table 2).

Table 2: Profiles of the interviewed immigrant women

| | W1 | W2 | W3 | W4 ¹⁸ | W5 | W6 | W7 | W8 | W9 | W10 |
|---------------------------------------|-------------------------|--------|----------------|------------------|------------------|---------|------------------|--------------------------------|---------------------------------|------------------|
| Origin | Somal. | Somal. | Somal. | Maroc. | Iran | Afghan. | Afghan. | Afghan. | Leban. | Leban. |
| Arrival year | 1996 | 1996 | 1996 | 1978 | 1998 | 2002 | 2001 | 2001 | 1990 | 1985 |
| Head scarf | Yes | Yes | Yes | Yes | No | Yes | Yes | No | No | No |
| Children (below 18) | 5 | 5 | 4 | 2 | 3 | 4 | 2 | 4 | 3 | 2 |
| Educational level (country of origin) | Medical laboratory ass. | None | Primary school | - | High school | None | Primary school | Started teacher training | English at university (2 years) | NA |
| Lab. exp. from country of origin | 8 years | None | None | None | None | None | None | None | None | NA |
| Danish qualifications | DLC* + activation | DLC | DLC | DLC + activation | DLC + activation | DLC | DLC + activation | DLC + activation | DLC + activation | Health care sec. |
| Danish labour market exp. | None | None | None | Yes | None | None | None | None | None | Yes |
| Activity when the 300 hour rule was | DLC | DLC | DLC | Activation | DLC | DLC | Seeking jobs | 9 th grade at VUC** | 9 th grade at VUC | Seeking jobs |

¹⁷ There were a few that I could not regain contact with due a move, change of phone number or job.

¹⁸ I obtained the interview with W4 from Center for Alternativ Samfundsanalyse (CASA) who conducted the interview as part of a study about families receiving the lowest level of welfare (see also Muller et al., 2010).

| | | | | | | | | | | |
|----------------------|-----|-----|-----|-----|----|----|----|----|----|----|
| introduced | | | | | | | | | | |
| Translator needed | Yes | Yes | Yes | Yes | No | No | No | No | No | No |

*Danish Language Courses **Adult Educational Centre

Eight of the social welfare workers had direct contact with clients in a position as employment agents (from the job centres) or social workers (from the social centre in charge of the payment of benefits). Two had a managerial position where they, among other things, had to organise the overall implementation of the 300-hour rule and listen to the concerns of their subordinates. The interviewed social welfare workers had different views on the 300-hour rule, but in accordance with the prevailing opinion, most interviewees were rather critical towards the new rules (see also the hearing statement from the Danish Social Welfare Worker's Association: Arbejdsmarkedsudvalget, Udvalget for Udlændinge- og Integrations, 2005). Still, the majority sympathised with certain elements, in particular the goal of labour market integration.

Table 3: Social welfare workers

| | SWW1 | SWW2 | SWW3 | SWW4 | SWW5 | SWW6 | SWW7 | SWW8 | SWW9 | SWW10 |
|----------|------------------|------------------|-----------------|-----------------|----------------|-----------------|-----------------|----------------|-----------------------------|------------------|
| Gender | female | Female | female | male | Male | Male | female | male | female | male |
| Age 40+ | No | No | Yes | Yes | No | Yes | - | No | - | Yes |
| Position | Social centre | Social centre | Empl. agency | Empl. agency | Team leader | Empl. agency | Empl. agency | Team leader | Head of empl. project | Social centre |

5. The 300 hour rule and the immigrant women

5.1 Economic incentives - short-term versus long-term employment plans

One of the key themes that emerged from the interviews with the immigrant women relates to short-term versus long-term employment motivation. It was very important for most women to convince me that they did not strive to be housewives, but were committed to participate on the labour

market even prior to the 300-hour rule. One of the Somali women expressed herself in quite definite terms: *‘There are nobody who wants to stay at home, but Danes think that we want to stay at home and that is not true’* (W2). She appeared to be somewhat offended by this prejudice, which she felt from the surrounding society.

Paradoxically, the majority of women acknowledged that they were not actively job seeking at the time of the introduction of the 300-hour rule. This could indicate that I was given the politically correct answer. Nevertheless, one circumstance speaks against such an interpretation, namely that everybody participated in courses or further schooling and thus they were not merely housewives (see Table 2).¹⁹ Subsequently, a few intended to work right away, while the rest aspired to continue their education (as pedagogues, nurses, social and health care worker). The wish for further schooling/education was particularly strong for some women. Two of them had allegedly been offered ‘passive benefits’ prior to the 300-hour rule, but instead they chose to study: *‘I went to VUC [Adult Educational Centre]. I will not like to stay at home’* (W9) and W5 said: *‘...when I was at home, I am bored’*. Several of the women had become rather discourage in their job search because they were always asked about a Danish degree. The Danish schooling/education was therefore not only regarded as an activity that could fill their days, but also an ‘admission ticket’ that could pave the way for long-term labour market integration.

Despite of this, the interviews leave little doubt that the increased economic incentives from the 300-hour rule had changed their employment focus from being a distant future plan to an urgent matter. Consequently, and in line with job search theory (Mortensen, 1977; Holmlund, 1998), all interviewed women engaged in active job search including the consultation of a wider range of job search channels: *‘...well, it is obvious of course that when you get penalised financially, then one of course try to mobilise all the – what is it called – creativity one can and I have of course... made a greater effort to search’* (W1). This process was extremely stressful for all the interviewed women (see further discussion below) and it also appeared to have had spill-over effects on the social welfare workers, who reported that their clients became more insisting. For instance SWW3 explained how her clients all of a certain begin to call her or show up at her office asking for extra help to find a job. This suggests that the pressure from affected clients became stronger (see further discussion in section 6).

¹⁹ The findings of previous studies also indicate that most immigrant women wish to participate actively on the labour market (Bjerregaard Bach and Larsen, 2008; Christensen and Goul Andersen, 2006; Goul Andersen, 2008).

Job search theory also predicts that acceptance of a job depends on whether the wage offer exceeds the reservation wage. Accordingly, the reservation wage is assumed to increase with benefit generosity (Mortensen, 1977; Holmlund, 1998). The interviews with the immigrant women also bore witness to this. Some women worked the required number of hours before the due date (W7 and W8). Others lost their benefit entitlements, but it turned out during the second interview round that most had managed to find a job relatively shortly thereafter (in cleaning, at warehouses or factories, doing the dishes in a restaurants). These were not the jobs they had dreamed of (all preferred to take care of children and old people), not only due to the content of the work, but also because it was unstable, casual jobs and sometimes physically demanding.²⁰ Nevertheless, the women felt they had to accept these jobs due to the economic pressure: ‘...it is also an annoying job, cleaning... but I have to work. So I would [have] like [d] education first...’ (W8).

5.2 Dilemmas about how to reconcile work with traditions and family needs

Although the 300 hour rule made most of the women willing to compromise their individual ambitions (and at least three of the women put an end to further studies), more than half of them voiced certain difficulties concerning jobs that did not comply with their traditional values including religion.²¹ Those who wore a headscarf refused to take it off: ‘I do not feel like taking my religion away because of work...’ (W7). Some women also have similar concerns about jobs where they would be in direct contact with pork meat and alcohol.

Quandary related to the well being of their families was also high on their agenda. On the one hand, many conveyed the importance of being present in the home during the early mornings and evenings/nights. For instance, W10 appeared to believe that she would fail her responsibility as a bad mother if she worked during the evening: ‘... [e]vening job, that is somewhat difficult for me, it is **my** children. There, I draw the line. Even though they say that you need to do everything to find a job then I still feel that way – I would rather be with my children during the evenings... If I need to find an evening job then the upbringing of my children would be lost...’ (W10). In general, their hesitation seemed more related to traditional family values than the availability of public childcare (as public childcare is nearly always available during the day, c.f. Goul Andersen, 2007).

²⁰ Only W6 had remained in the same job since 2007 and it was in her husband’s pizzeria.

²¹ Consistent with the findings of previous studies, the women disclosed rather conservative values (see also Ministeriet for Flygtninge, Invandrere og Integration, 2007).

Furthermore, in most cases the husband was at home during the evenings. On the other hand, the women were extremely worried about not being able to full-fill the most basic physical and social needs of their children if they did not find a job. For instance W3 explained the consequences for her family and her feelings when she lost her benefit entitlements: *‘Less clothes because you do not have the means to buy clothes for them [her children]. It also concerns the food, which means less food. It is very difficult. It is something that I cannot describe. It is a very difficult situation. And then the worst is when the winter comes and then they need waterproofed suits and winter clothes and winter boots and that we cannot afford’* (see further discussion below).

Among the women who had expressed such concerns, none of them thought that traditional values were incompatible with their active labour market participation, however. Even if, some of the Somali women implicitly acknowledge that their way of dressing represented a barrier, they did not seem to feel responsibly themselves, but blamed the employers for their situation: *‘There is no one that opens the door to the labour market... “Why not?”* [rhetorical question from the interviewee] *They [the employers] don’t want us.’* (W2). It appeared to be easier for some of the other women to reconcile work and traditions possibly also because their families were flexible. For instance W8’s husband came to pick her up from work (60 km in total) due to lack of public transport during the evenings and he also started helping with the house chores (still, she prepared the dinners for the week during weekends). W6 and her family had different priorities. Even if her husband was at home and they risked being sanctioned, it was important that she was present during the early mornings: *‘...it is difficult for me... I not go early in the morning because I have two small children’*. Consequently, her husband found a job at a fish factory and she took over his job in the pizzeria during the late morning and afternoon. The husband then kept his duties in the pizzeria during the evenings. In other words, the increased economic incentives did not appear to have ‘moved’ the interviewed women with respect to their traditional way of life, but some were just more able to find solutions where they felt able to satisfy both requirements.

5.3 Side effects: declining well-being and mistrust towards the Danish society and the social welfare system

It is clear from the interviews with the immigrant women as well as the social welfare workers that the 300-hour rule gave rise to certain side effects. First of all, the new rules caused much distress

and worries for the affected women. They experienced fits of depression, sleep deprivation, lack of energy, concentration difficulties etc. W3 explained her feelings in the following way: *'I got very confused, sad - could not deal mentally with this regulation'*. This was because she felt completely helpless, as she did not *'...know the system and I do not know, which door I should ring the bell and I have no experience and then I do not know what I [should] do'*. The distress and worries was even sometimes visible in their physical appearance. For instance W5 was almost crying during the first interview and looked truly depressed.²² This stood in stark contrast with the impression I had from the second interview where she, despite of the 300 hour rule, had finished an education as a social and health care worker and found a good and stable job. Here she now appeared to be a happy and dynamic young woman. She told me about her everyday life with family and friends and even asked me what I had been doing during the intervening years. This showed a surplus of mental resources, which she did not possess during the first interview.

Nevertheless, the distress became even worse for the sanctioned families who faced problems paying the rent, basic groceries, clothes for the children and therefore had to borrow money from friends and family. For instance W10 told me that: *'So we cannot continue to go and borrow money... and in the end it gets too much for yourself... you will be embarrassed and irritated that you go and beg for money and that is hard'*.²³ Also the social welfare workers observed their frustrations. SWW9 reported that some of her clients were so consumed with worries that it was difficult to have a normal conversation with them. These findings are consistent with the 'coping perspective' (Halvorsen, 1994; Goul Andersen, 2002), which suggests that such mental conditions can occur because the individual's ability to cope with unemployment is largely determined by access to economic resources (see also Ervasti and Venetoklis, 2010; Fryer, 1986; Goul Andersen, 2002; Halvorsen, 1994; Leana and Feldman, 1990; Nordenmark and Strandh, 1998; Whelan, 1992).

Next to the practical economic worries was the guilt towards their families, especially the children. Most women tried to shelter the children from the concrete worries, but it was not always possible. For instance, W10 told me that her worries affected her family: *'You really get so stressed that I took it out on the family. I took it out on my husband and my two small children – that was not*

²² When SWW3 provided the contact on W5 (after having the permission from her client) she warns me that *'She [W5] feels like hell...'* due to the pressure of the 300 hour rule. Consequently, SWW3 did not expect that W5 would have much energy for the interview.

²³ W10 tends to talk in second person about herself.

really particularly right... It [the 300 hour rule] has hit us hard'. It was also very difficult to cope with the fact that they could not afford to let their children participate in social activities or buy certain things. For example, W5 told me that she had to tell her daughter that she might not be able to continue playing handball, which was very difficult for her: *'So then I have really bad conscience towards my children. Therefore, I put pressure on myself to find a piece to work, but I could not continue'*. The financial worries also sometimes took its toll on the marital union: *'...stress and lack of money that can of course cause problems at home between the husband and the wife'* (W10) (see also Conger et al., 1990).

A second side-effect was that the interviewed women generally felt singled out and somewhat excluded from the Danish society due to this policy. They knew that it was designed to affect immigrant families: *'They [the politicians] want to affect Muslims, that's it'* (W2). It also planted a mistrust and discontent towards the Danish social welfare system. Because the participants in their opinion already had demonstrated a will to integrate by actively engaging in further courses/schooling/education, it was difficult for them to understand and accept the new rule rules. Despite of the fact that all women felt the 300 hour rule unfair in their situation, quite a few of them also showed considerable understanding for the policy for those that in their opinion just sponged off the state. For instance W6 explained that: *'For other people, it [the 300 hour rule] is good... They sit at home and drink and eat – not good'* (W6). A few women were also very bitter on their social welfare worker. For instance W5 thought that she was not shown enough flexibility and compassion for her situation: *'It is very unfair so close to the exam [Danish language exam], then they pressure [the social welfare workers] me to work'*. Instead she had told her social welfare work not to generalise: *'... [y]ou should also consider my situation, you should not genera, generalise everything. There are differences from one person to another person'*.

6. Cross-pressure and break with coping-behaviour

This view on the social welfare workers' implementation stands in stark contrast to my observations. The interviews with the social welfare workers showed that most felt the deepest sympathy towards the families who sometimes desperately asked for their help. This treatment of the very weakest was at odds with the social welfare workers' professional values and thus they did not only experience an increasing *pressure from their clients*, but also from *within*. Most of the

interviewed social welfare workers were convinced that the main problem was not their clients' unwillingness to work, but rather employment barriers that were beyond their control (see also the hearing statement from the Danish Social Welfare Worker's Association: Arbejdsmarkedsudvalget, Udvalget for Udlændinge- og Integrations, 2005). The same social welfare worker whom W5 expressed a very negative opinion about (see Section 5, pp. 19) specifically told me that W5 was one of the clients whom she felt great scruples towards: *'Ohh, it is a pity... She is a girl who I think slogs away... Damn, I think it is a pity for somebody like her'* (SWW3). Others were so frustrated that it affected their psychological well-being: *'God help me, I was ill myself last week for three days because I cracked up'* (SWW10) and another said: *'It is awful every time [to inform a client that (s)he will be sanctioned] – it is something that makes me lie awake at night'* (SWW4). Nevertheless, they felt that they were left with no choice, because as also indicated in Section 2, the 300-hour rule can be viewed as an instrument of political control and therefore a growing *pressure from above*. To underpin this, the social welfare workers seemed surprisingly conscientious regarding the enforcement of the 300-hour rule: *'I definitely have clients where I sit and feel really sorry for them, but I also still have a legislation that I have to relate to and I need to act upon'* (SWW2).

6.1 Emergency atmosphere and a break with coping-behaviour

As a consequence of the increasing cross-pressure, an atmosphere of emergency arose among social welfare workers. According to Lipsky (1980), emergency procedures tend to induce a more comprehensive treatment of the clients in question when limited resources otherwise prevent them from treating all cases sufficiently. In other words, 'assigning' clients to a so-called emergency category implicitly bring further resources for solving these cases.

The mobilisation of resources happened primarily at the level of the individual social welfare worker. SWW3 stated the following about her considerations: *'We... relatively quickly schedule them for a meeting [to see] whether we can as soon as possible help them ... find something [a job]'*. She further explained: *'...so there we have actually made those [clients] a priority'*. According to SWW5, this was also partly facilitated by a mobilisation that took place at the municipal level (both at administrative and political level) and helped along by the extra funds granted from the central government to selected municipalities (see also Rambol, 2009).

Noticeably, several social welfare workers reported that their caseload declined dramatically. For instance SWW9 explained that when she was assigned to lead a project, which specifically focused on women covered by the 300 hour rule, her caseload dropped to 1/6 of the cases she normally managed.

All in all, the mobilisation of resources among social welfare workers, partly supported by the extra resources from local and central governments, appeared to have contributed to a break with the widespread use of coping-behaviour towards this group (see also Heinesen, Winter, Risom & Husted, 2004; LG Insight, 2004, 2005; Regeringen, 2005; Winter, 2002). Even though these clients were considered as difficult cases they were assigned greater priority (a break with the coping option, creaming). The increased attention also resulted in greater awareness of the individual differences within the group and thus a break with standardization (for further discussion see Lipsky, 1980). Previously: *'...they had been somewhere there in that 'grey crowd' that somehow was on standby'* as SWW6 vividly described it.

6.2 Social welfare workers – from barrier to helping hand

The break with coping-behaviour implied that social welfare workers became a 'helping hand' rather than a 'barrier'. From almost ignoring non-western women who had received social assistance on a long-term basis, several social welfare workers and municipalities now introduced different measures that should foster their labour market integration. One type of measure was to allocate extra resources to the communication of the 300-hour so that the notification letter would not stand alone. Many municipalities invited affected families for information meetings with the participation of translators, while in others, client were called extraordinary for individual meetings.

Another type of measures sought to provide extra job-search assistance (e.g. extra close supervision, increased availability, direct contact with employers). Municipalities and not least individual social welfare workers went well beyond the service traditionally expected. Some explicitly asked employers to provide job openings putting additional pressure on them by explaining the consequences for the sanctioned families. One social welfare worker stated that when an employer refused to hire one of his clients, he immediately asked what could be done to change his mind (mentor programme, Danish courses etc.). There are also municipalities that implemented different employment programmes (e.g. 'job-clubs', mentor schemes). In order to

provide an extra helping hand, some municipalities reorganised their integration efforts by creating special units or assigning a key person to these clients (e.g. in the case of SWW9's municipality). This possibly gave rise to further specialisation.

6.3 Tidying up

The increased attention towards the individual as well as the liberation of resources also resulted in a large scale tidying up. Several social welfare workers reported that they were behind with the unravelling of these clients' cases because it was a non-obligatory task (also a coping option). This appears to have been a matter of economic calculations. SWW3 explained that 'contact-meetings' were previously given priority because of the subsidy rules. Besides it was often very time consuming to unravel some of these cases. According to SWW9, this was because some clients did not dare to go alone to for instance medical examinations. Due to the dramatic decrease in her caseload, she was now able to pick the client up and take her to the hospital. Quite a few social welfare workers reported that many clients were either temporarily exempted from the 300-hour rule or permanently moved elsewhere in the social welfare system (e.g. disability pension, assigned to matching-group five, flex-job). This tidying up (to the extent that it was rightful) can therefore also be viewed as a break with past coping-behaviour.

It is of course difficult to judge whether it always was legitimate or if it sometimes was to protect a client. However, despite being anonymous, social welfare workers deny that non-professional considerations underlie their decisions. Nevertheless, in a few occasions I suspect that it was not only a matter of tidying up as my question made some of the social welfare workers very uncomfortable. As an example, SWW1 told me that their team leader had inculcated that it was not acceptable if they just moved clients to matching-group five, but she admitted: *'...whether a few slipped thaaaat I neither confirm nor refute - it is a dangerous question you are asking me'*. Others confess that it was decided that nobody in their municipality should be sanctioned.

However, the 300-hour rule appeared to have affected the decision whether to unravel or not (also called 'create resource profiles' in technical terms). SWW3 stated that *'...when the situation... is that if you do not do it [create a resource profile] then they are kicked out [of the social assistance system] and that you can see that it will be horrible then you start up more resource profiles, I believe'*. She further expounded that problems, which were previously disregarded now played a

role (e.g. people who were traumatized, who had back pain etc.). Due to the severe economic consequences several social welfare workers also mentioned the importance of safeguarding the legal rights of their clients.

7. Discussion

During the last decade, policy makers in most developed welfare states have introduced ever stricter eligibility criteria combined with benefit sanctions in order to ‘make work pay’. The aim of this study was to contribute to the literature with a better understanding of how such initiatives may influence the mechanisms that are important for the labour market orientation and integration of individuals with poor labour market prospects. This was done by exploring the lived experiences of a Danish policy change – the so-called 300-hour rule – that dramatically increased the economic incentives to work for immigrant women receiving social assistance on a long-term basis. The intension from the Liberal/Conservative government was to force these women to participate actively on the labour market and break with their traditional values.

My findings suggest that the harsh economic incentives indeed did stimulate the short-term employment motivation of the affected women, which in turn resulted in increased job search intensity and their willingness to accept a job offer. Nonetheless, the women did not seem to think that traditional values hampered their labour market integration, as these different considerations – in their view – were not incompatible in the first place. However, in actual practice this balancing act appears to have been easier for women and families who were flexible.

Nevertheless, this is only part of the picture. The interviews also draw our attention to the potential negative consequences of strong economic incentives, especially for those who felt unable to meet the employment request. Many women did not only suffer psychologically (they experienced fits of depression, sleep deprivation, lack of surplus of energy), but some also gave up further education and lost contact with the social welfare system as a result of the 300-hour rule. Therefore, my findings indicate that the 300-hour rule deprived the women from some of the positive effects of benefits, namely that financial means can prevent the decline in psychological well-being and implicitly facilitate support from the social welfare system.²⁴ In other words,

²⁴ As benefit reciprocity in Denmark goes hand in hand with monitoring as well as assistance from the social welfare system.

benefits also represent a potentially important personal resource, most likely particularly crucial for the unemployed who have poor labour market prospects. The contact and assistance from the social welfare system may be even more important for immigrant job seekers as it is a way for them to obtain host country specific human capital (e.g. language course, internships, education etc.) and knowledge about the labour market. These were also opportunities, which the women generally valued. It is therefore unfortunate that the 300-hour rule planted (or reinforced) a feeling of resentment towards the Danish society and social welfare system.

With regard to the social welfare workers, the government's hopes were partly fulfilled, but the way it happened was not exactly in the spirit of the policy makers. In greater detail, witnessing their client's despair, an atmosphere of emergency transpired among social welfare workers. This situation gave rise to a break with the coping-behaviour of the past. Now, these clients were made a priority. Efforts to support their chances of finding a job often went way beyond what is normally expected. In some municipalities, extra resources granted by the central government also facilitated this. Finally, the increased attention gave rise to 'tidying up' in the municipalities as well. Thus several immigrant women were moved elsewhere in the social welfare system and thereby exempted from the sanctions.

This study reminds us that we should not only consider the mechanisms stated by job search theory. Future quantitative research should account for some of these positive effects of benefits, particularly for those with poor employment prospects. Additionally, it is important to keep in mind that sometimes it is not only the target group, which is affected by a policy, but also the street-level bureaucrats who are implementing the legislation. A combination of high quality administrative data and a survey at the level of social welfare workers or municipalities could facilitate this research.

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Article 4: Is ‘making work pay’ effective for the ‘unemployable’?

The impact of benefit sanctions on social assistance recipients in Denmark

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Abstract

In spring 2006, the Danish government introduced a policy that required married long-term social assistance recipients to work 300 hours in non-subsidised employment during a two-year period in order to remain eligible for benefits. The intention was to ‘make work pay’ for unemployed immigrant women. This study evaluates how this policy influenced their transitions to employment and other benefit schemes by applying a competing risk duration model on Danish administrative data. The results show that the new rules not only had the anticipated impact on the women concerned, but the policy also had an unforeseen effect on the work effort of social welfare workers. Many moved their clients to other benefit schemes instead of applying the sanctions. This was particularly the case for the weakest among the unemployed and in municipalities, which were headed by left-wing mayors or that received extra funds from the central government. Although the new policy did increase transitions to employment, this effect occurred mainly in municipalities that provided extra support.

Keywords: Benefit sanctions, even history analysis, immigrants, social assistance, street level bureaucracy, unemployment duration

1. Introduction

There is a long and ongoing debate about the sustainability of European welfare states. The previously acclaimed goal of decommodification and poverty reduction has been superseded by a more critical view on the welfare state. Generous social protection has been blamed for the increase in the proportion of individuals from the working age population who do not participate actively on the labour market (e.g. OECD, 1999). As a result, governments in most European countries have introduced stricter conditions for benefits in order to 'make work pay' (OECD, 1998; 1999; Venn, 2012; for a conceptual discussion see Clasen and Clegg, 2007). One clear example of this trend is so-called 'activation policies'; unemployed benefit recipients are requested to fulfil set criteria to demonstrate their availability for work. In some extreme cases, non-compliance can result in the complete removal of benefits (e.g. Clasen and Clegg, 2008; Lødemel and Trickey, 2001; Barbier and Ludwig-Mayerhofer, 2004). But are such sanctions always effective?

An extensive economic literature investigates the impact of benefit sanctions and finds a positive effect on transitions to employment (e.g. Lalive et al., 2005; Van den Berg, 2004. For overviews see Holmlund, 1998). However, most scholarly proponents of this view place less emphasis on three important aspects:

Firstly, other than the actual impact of benefit removal (the ex-post effect), the mere threat of being sanctioned is also likely to influence the behaviour of the unemployed (the ex-ante effect). The vast majority focuses solely on the former effect. A notable exception is Lalive et al. (2005) who study the ex-ante effect by including variations in sanctioning regimes among different regions in Switzerland. Their findings suggest that relatively strict monitoring along with sanctions has a positive effect on transitions to employment (see also Jensen et al., 2003).

Secondly, as job search theory implicitly assumes employers are willing and able to hire, most previous research studies the impact of benefit sanctions on 'employable' individuals. But what happens when strong economic incentives are targeted towards the very weakest? Are sanctions really an efficient tool for increasing the labour supply of those at the margins of the labour market? It is possible to imagine that the impact of benefit sanctions (both ex-ante and ex-post) on this group might be neutralised by employment barriers and result in poor job matches or even lead to some people leaving the labour market (see also Rosholm and Vejlin, 2010). This knowledge gap is of particular concern since policy makers increasingly direct strong economic incentives towards

social assistance recipients, immigrants, disabled people and other groups at the margin of the labour market (Denmark: Goul Andersen, 2007; the UK: Adam and Brown, 2013).

Thirdly, to the best of my knowledge, the literature considers the direct effects of benefit sanctions on the supply side as identified by job search theory, but ignores other mechanisms. Bearing in mind that street-level bureaucrats implement most labour market policies, there could be an intermediate effect of a strict monitoring regime with benefit sanctions on their case management or social welfare workers could simply 'choose' to diverge from the intentions behind the law, the principal-agent problem (see also Lipsky, 1980; Clasen and Clegg, 2007). A recent qualitative study of a Danish policy change, namely the so-called 300 hour rule, provides an example of such a mechanism. This policy combined strict employment conditions with close monitoring of long-term social assistance recipients in order to 'make work pay' (Diop-Christensen, 2012). Non-compliance was punished by a complete loss of entitlements to social assistance. According to Diop-Christensen (2012), the 300-hour rule not only triggered changes for social assistance recipients, it also influenced the work efforts and priorities of social welfare workers. As a way to 'shelter' their clients from the severe consequences of the policy, some social welfare workers increased their job search assistance, while others moved certain individuals to other benefit schemes (e.g. disability pension, sheltered employment). Ultimately, such actions may even have influenced the unemployment duration and the exit state of the effected group (see further discussion in Section 2).

Following this, the aim of the present study is to increase our understanding of the impact of benefit sanctions for groups at the very margin of the labour market, while considering mechanisms related to social welfare workers and the ex-ante effect. More specifically, this paper examines the impact of the aforementioned 300-hour rule on transitions from unemployment for the target group, namely non-western women receiving social assistance on a long-term basis. The paper adopts a multi-level competing risk duration model. The three possible exits from unemployment are long-term employment, short-term employment or other benefit schemes. The last option includes transitions to disability pension, different types of sheltered employment, and another category of the social assistance scheme where recipients are not required to be available for work. The paper uses Danish administrative data combined with variables at the municipality level.

This research therefore contributes to the existing literature in three ways: Firstly, rather than merely focusing on the ex-post effect of benefit sanctions, it also identifies ex-ante effects by

including a proxy for exposure to the new sanctioning regime. Following the argument of Van den Berg et al. (2004), the ex-ante effect of a system with certain sanctions can be identified if data is also available “...from a period with a welfare system without sanctions” (pp. 239). The introduction of the 300-hour rule provides such a set-up (see further discussion in Section 2). Secondly, the analysis enhances our knowledge about whether the theoretical predictions from job search theory are applicable to the ‘unemployable’ and if this group is at greater risk of finding unstable employment and exiting from the regular labour market as a result of the strong economic incentives. Other than examining the effect of sanctions on a group at the very margin of the Danish labour force, I include a proxy for the degree of ‘employability’, which is available in the Danish administrative data. Thirdly, by including variables at municipality level, this paper also examines the potential intermediate impact of a benefit-sanctioning regime on social welfare workers as suggested by Diop-Christensen (2012). Furthermore, because transitions to other benefit schemes can only be undertaken on the initiative of a social welfare worker, including other benefit schemes as a possible exit state from unemployment it also captures this intermediate impact.

The outline of the paper is as follows: The next section provides further information about the 300-hour rule and the Danish policy context. Based on this, five hypotheses are presented. Data and methodology are outlined in Section Three. Section Four contains the results. This section provides some descriptive statistics and figures on the hazard rate from unemployment before considering the results from the competing-risks event-history models. The conclusion in the final section is accompanied by recommendations for policy and future research.

2. The 300-hour rule and the Danish policy context

At the beginning of the millennium, only about 40 % of non-western immigrant women were gainfully employed compared with 73 % of native Danish women. Most non-employed immigrant women received social assistance on a long-term basis. According to the Liberal-Conservative minority government of the time, the main reason for the poor labour market outcomes of these women was the lack of economic employment incentives. Having an economic incentive to find a job was assumed to be even more important for immigrant women than for native Danes due to the

prevalence of traditional family values, as most of them originated from the Greater Middle East (Regeringen, 2005, Hjort Frederiksen, 2007).²⁵

However, the government did not only blame the immigrant women for a failure – or inability – to participate in the labour market, but also the social welfare workers whom allegedly did not enforce the principle of labour market availability as a condition for benefit receipt. In other words, this group had been shelved by social welfare workers and thus exempted from the employment requirements (Regeringen, 2005). This claim was supported by previous studies and policy reports, which concluded that non-western immigrant women were generally subject to social welfare workers' coping-behaviour (Heinesen et al., 2004; LG Insight, 2004; Winter, 2002; see also Lipsky, 1980).²⁶

In response, the government introduced the 300-hour rule in spring 2006. This policy was part of the integration package 'A New Chance for All', which was supported by the right-wing, Danish People's party. The explicit intention was to make work pay for immigrant women and they hit their target spot on as more than 90 % of the covered families had immigrant background (Bjerregaard Bach and Larsen, 2008).

2.1 The 300-hour rule – scope and consequences for social assistance recipients

The 300-hour rule required individuals, living in a marital union, to work for 300 hours in non-subsidised employment during a 2-year period in order to remain eligible for social assistance. In the case of non-compliance, one of the spouses would lose benefit entitlements. During a transition phase (from 2006 to April 2008), the government 'only' required 150 hours' employment over a 12-month period. Local authorities had to notify potentially affected families by letter six months before sanctions would kick in (starting from October 2006). In the narrowest interpretation of the law, the spouses could choose to work a few hours every week or take on a full-time job lasting between one and two months. This would grant them the right to receive social assistance for the following two years.

²⁵ I follow the definition of the Greater Middle East by the G8, which also includes Afghanistan, Pakistan, and North Africa.

²⁶ Such a prioritisation is common among street-level bureaucrats, who tend to make difficult cases that demands extra resources subject to their coping behaviour (Lipsky, 1980).

In cases where the employment request was not fulfilled one month prior to the due date, consultative procedures were initiated by social welfare workers to establish a possible postponement of the initial sanction date because periods of maternity leave or illness did not count. Nevertheless, only one spouse could lose social assistance entitlements. For a family of four, this would result in a monthly decrease in household income of about € 1,050 (see Table 1 below). However, the sanctioned spouse could re-qualify for social assistance by working 300 hours from the first sanction date. Any hours worked prior to the date of sanctioning were disregarded.

In line with the expectations of the government, the strong economic sanctions should foster the labour market integration of these non-western immigrant women. In greater detail, the threat of losing benefit entitlements (ex-ante effect) as well as the actual sanction (ex-post effect) is expected to increase transitions to employment (Hypothesis 1).

Table 1: Example of the income cut for a married couple with two children (€)

| | Both spouses receive social assistance | Discontinuation of social assistance for one spouse |
|-------------------|--|---|
| Social assistance | 3194 | 1597 |
| Tax | 819 | 268 |
| Total net income | 2377 | 1329 |

Source: Rasmussen, 2007

However, not all married couples were subject to the new monitoring and sanctioning regime – those without any ability to work were exempted. Assessments were based on so-called ‘matching-groups’, that indicate whether qualifications matched labour market requirements. At that time, there were five matching-groups. The first of these suggested a good match and vice versa. Only matching-group five was excluded. The inclusion of those who belonged to matching-group four (almost 50 % of the affected clients) was viewed as particularly controversial as the unemployed in this category “...have such significant limitations in their competences and resources that the unemployed would not immediately be able to attend to job functions on the regular labour market” (see also Bjerregaard Bach and Larsen, 2008; Goul Andersen, 2007). Due to the poor labour market prospects for individuals belonging to the lowest matching categories, I

would expect that the ex-ante and ex-post effects on transition to employment would be smaller for individuals from matching group 3 and 4, and that they would be more concerned by transitions to unstable jobs than those from matching groups 1 and 2 (Hypothesis 2).

2.2 Consequences and options for social welfare workers

The 300-hour rule intended to make sure that social welfare workers applied a strict monitoring regime to non-western immigrant women so they were not exempted from the labour market availability requirement. This was ensured by the definition of clear and indispensable standards for labour market availability and sanctions whereas before, the availability requirement was blurry and the punitive measures were based on discretionary assessment by social welfare workers.

According to McCubbins et al. (1987), such legislation increases political control. This argument is supported by Diop-Christensen (2012) who observed that social welfare workers felt an increasing *pressure from the top*. At the same time, she suggests that *pressure from below* and *from within* the social welfare workers also increased. In greater detail, the *pressure from within* intensified because the policy was at odds with the professional standards of social welfare workers. As evident from the hearing statement from the Danish Social Welfare Workers' Association (Dansk Socialrådgiverforening), the organisation disagreed with the effectiveness of the policy instrument, which in their view would only lead to increasing marginalisation.²⁷ The social welfare workers also felt a greater *pressure from below* – their clients – who suddenly found themselves in an extremely difficult economic situation and therefore demanded increased assistance (see also Lipsky, 1980). Consequently, this increasing cross-pressure sparked an atmosphere of emergency and thus a mobilization of extra resources for solving these cases. This facilitated a large scale ‘tidying up’ in many the municipalities where some of the affected clients were unravelled and moved to other benefit schemes and thus exempted them from the sanctions. As it was the job of social welfare workers to categorise their clients into the five matching groups, some women were also exempted from the requirements because their social welfare workers moved them to matching

²⁷ “...it is generally unrealistic... to beat the weakest unemployed to find a job by reducing their relief from the state. The weakest groups have such limited qualifications and general abilities that it is extremely difficult to find suitable and willing employers for them. If the weakest social assistance recipients should receive real help, it demands a lot from the municipalities in terms of initiatives that tackles their integration into societies as well as increase the qualifications for their integration into the labour market. Otherwise, the result of the reduction will only be increasing poverty” (Arbejdsmarkedsudvalget, Udvalget for Udlændinge- og Integrations, 2005).

group five (Diop-Christensen, 2012). Therefore, as an extension of Hypothesis 1, I expect that being under threat (the ex-ante effect) increases the probability that social welfare workers would move clients to other benefit schemes (Hypothesis 3).

However, the ability of social welfare workers to make this group a priority could have depended on whether they could release extra resources. The introduction of the 300-hour rule had divided public and political opinion. In a heated public debate many left- and centre left-wing politicians railed against the use of strong economic incentives towards an already marginalised group. In some municipalities, the local government even decided that the administration should provide job guarantees for everyone (Diop-Christensen, 2012; Ankestyrelsen, 2007). It is therefore likely that the implementation of the 300-hour rule would receive more attention and also more resources in municipalities where the mayor belonged to the left- or centre left-wing parties. This would have enabled social welfare workers to provide extra job search assistance and therefore affect transitions to employment. However, it may also have facilitated the movement of clients to other benefit schemes (Hypothesis 4).

Furthermore, concurrent with the introduction of the 300-hour rule, some municipalities received extra funds from the central government as part of the integration package ‘A New Chance for All’ (Ramboll, 2009). This was in order to improve services for integrating these long-term social assistance recipients into the labour market. In some municipalities, this resulted in a marked fall in the number of cases each social welfare worker had to manage (Diop-Christensen, 2012). The exact caseload of every social worker is likely to be an important predictor for their success or otherwise. It could therefore be expected that the effect of the 300-hour rule on the transitions to employment – as well as other benefit schemes – would be greater in municipalities that received the extra funds (Hypothesis 5).

3. Data and methodology

3.1 Data

I use Danish individual level administrative data provided by Statistics Denmark combined with variables at municipality level. More specifically, I join the ‘Integrated Database for Labour Market Research (IDA)’ and the ‘DREAM database’. IDA contains information of more than 200 variables on the entire population living in Denmark on an annual basis (since 1980). This includes human

capital, demographic (e.g. country of origin, age, marital status, number of children) and employment characteristics (for a detailed English description see Timmermans, 2010). The DREAM database holds information on all public benefits for the entire population living in Denmark on a weekly basis (since 1991). Therefore, the combination of these two datasets includes detailed and weekly longitudinal information about the immigrant women who were covered by the 300-hour rule. The latter feature makes this data particularly suitable for event history analysis.

The period of analysis ranges from January 2006 to January 2008. I define the starting date as January 2006 because it allows me to observe unemployment transitions prior to the introduction of the policy. Concerning the end date, there was a ruling from the Appeals Board in the beginning of 2008, which changed the scope of the 300-hour rule (Ankestyrelsen, 2007).²⁸ The choice of period implies that covered individuals were subject to the transition rules (150 hours during one year). In other words, they were required to work the equivalent of one month of full time employment.

I focus on married women below 65 years of age who in 2006 had received social assistance for the previous 18 consecutive months, as these were the main conditions for the 300-hour rule. In greater detail, I construct a sample by calculating past benefit reciprocity every month from the 1st of January to the 1st of November 2006. I delete Western immigrants from the sample along with the native Danish women as they are of marginal interest in the context of this study. Due to data limitations, I only allow for a single unemployment spell for every individual. In other words, if the person became employed, but lost the job after a few months and re-enters the social assistance scheme, only the first unemployment spell is included in the analysis. This is because the data does not provide information about whether the individual obtained 150 hours and when exactly she is required to work another 150/300 hours. Consequently, all consecutive spells along with those that are started prior to 1991 (left censored spells) are deleted. After deleting these cases, my sample consists of 5,564 individual spells of unemployment.

I define three exit states from unemployment: Long-term employment (>3 months), short-term employment (≤ 3 months), and other benefit schemes. The DREAM database does not contain direct information about employment prior to 2008, but I assume that individuals are

²⁸ In the first instructions from the Ministry of Employment, the covered group was defined as married couples where one or both spouses received social assistance. After January 2008, only married couples in jobless households could be affected by the 300-hour rule.

working if they are not sanctioned or receive other government benefits.²⁹ Following this assumption, I calculate the length of the following employment spell. Exits to 'other benefit schemes' include movement to disability pension, matching group 5 within the social assistance system, subsidised employment, paid education/training etc. Table 2 presents the final exit status for the sample. As evident from this table, 50 % are still unemployed at the end of the time period and thus right censored. These are women who worked in a part time job next to their social assistance for 150 hours. It also includes women who had an extension of their due date due to maternity leave, illness etc. About 17 % found a job that lasted longer than 3 months, while 13,5 % found a short-term job (less 3 months). More than 20 % were out of the social assistance scheme, but received other types of government benefits.

Table 2: Final exit status (%)

| | |
|--|-------|
| Unemployment with social assistance (right censored) | 47,6 |
| Long-term employment (>3 months) | 17,4 |
| Short-term employment (<=3 months) | 13,5 |
| Other benefit schemes | 21,5 |
| Total | 100,0 |

The data does not contain direct information about whether an individual is subject to the 300-hour rule. However, when defining the sample as described above, I can construct a dummy variable based on calendar information that indicates whether a person is supposed to have received the early warning from the municipality (threat of being sanctioned). Some of the municipalities did according to Ankestyrelsen (2007) not notify their clients on time. In order to account for this in the analysis, I use information from a telephone inquiry conducted in spring 2007 that identifies these municipalities. Only about 5 % of the women did not yet receive the early warning in January 2007.

²⁹ I argue that this is a valid assumption as employment is the only reasonable explanation for why an individual would leave the social assistance scheme keeping in mind that we observe those who are sanctioned due to the 300-hour rule as well as those that are moved to other schemes.

I also construct another dummy variable that indicates whether an individual was eventually sanctioned. This information is available in the DREAM database. In line with Ankestyrelsen (2007), 4,4 % of the covered women had been sanctioned at the end of the period (Table 3).

Table 3: Descriptive of the data

| | Jan. 2006 | Jan. 2006 | Jan. 2006 |
|-------------------------------|-----------|-----------|-----------|
| <hr/> | | | |
| Age (%) | | | |
| Under 30 | 14,5 | 10,9 | 11,2 |
| 30-40 | 48,2 | 48,6 | 47,9 |
| 40-50 | 28,2 | 30,6 | 31,2 |
| 50+ | 9,1 | 10,0 | 9,7 |
| <hr/> | | | |
| Origin (%) | | | |
| Yugoslavia | 9,5 | 8,5 | 7,8 |
| Turkey | 8,8 | 8,2 | 7,5 |
| Lebanon | 12,3 | 12,9 | 14,1 |
| Iraq | 21,5 | 22,7 | 24,0 |
| Afghanistan | 10,6 | 11,0 | 9,9 |
| Somalia | 8,0 | 8,7 | 8,9 |
| Other Middle East | 16,5 | 17,0 | 18,1 |
| Rest of the world | 12,8 | 11,0 | 9,8 |
| <hr/> | | | |
| Children (%) | | | |
| None | 25,5 | 27,3 | 26,4 |
| 1-2 | 52,3 | 49,8 | 47,7 |
| 3+ | 22,3 | 22,9 | 25,9 |
| <hr/> | | | |
| Highest educational level (%) | | | |
| Secondary school or less | 51,0 | 52,0 | 52,1 |
| Technical and professional | 35,7 | 34,6 | 34,3 |
| University | 13,3 | 13,4 | 13,6 |
| <hr/> | | | |

| | | | |
|---|------|------|-------|
| Unemployment duration in months | 59,8 | 72,1 | 84,8 |
| 300-hour rule (%) | | | |
| Threat | 0,0 | 95,0 | 100,0 |
| Sanctioned | 0,0 | 0,0 | 4,4 |
| Matching group (%) | | | |
| 1-2 | 4,0 | 3,5 | 4,2 |
| 3 | 38,4 | 36,1 | 30,4 |
| 4 | 57,7 | 60,4 | 65,4 |
| Proportion receiving training/counselling (%) | | | |
| Less than 10 % | 39,6 | 40,4 | 43,4 |
| 10-40 % | 14,3 | 14,0 | 12,1 |
| More than 40 % | 15,0 | 15,2 | 15,4 |
| Missing | 31,1 | 30,4 | 29,0 |
| Mayor's partisan belonging (%) | | | |
| Left wing | 71,2 | 71,6 | 72,0 |
| Right wing | 26,5 | 26,5 | 26,1 |
| Local list | 2,4 | 1,9 | 2,0 |
| Extra resources (%) | | | |
| Yes | 56,9 | 59,5 | 61,7 |
| No | 43,1 | 40,5 | 38,3 |
| Sample size | 5564 | 4033 | 2619 |

Information about matching groups is available in the DREAM database. More than half of the women belonged to matching-category 4 (see also Bjerregaard Bach and Larsen, 2008). Very few were in matching-categories 1 or 2 (about 4 %). This suggests these women had very poor employment prospects. At the municipal level, I construct three variables using different data sources. Firstly, based on a survey conducted by Ankestyrelsen (2007), I construct a variable, which measures the proportion of covered clients that the municipality organised specialised trainings and

counselling for after sending out the notification letters in the autumn 2006. This variable is a proxy for whether the extra resources and work efforts of some municipalities influenced the outcomes of the 300-hour rule and thus if economic incentives work towards the weakest unemployed on a standalone basis. Secondly, I include information on whether the municipality had received any funds from the central government concurrent with the 300-hour rule (Rambøll, 2009). Thirdly, I also construct a variable indicating whether the mayor is from a left-wing party (Socialist People's Party, Social Democratic Party, Radical Left Party). As evident from Table 3, most of the women lived in municipalities that did not formally initiate extra trainings and counselling for the covered clients. As left-wing parties tend to be elected in larger urban centres, and this is also where most immigrants have settled, the majority of the sample lived in municipalities headed by a mayor from a left-wing party. About 60 % lived in one of the 15 municipalities that received extra funds from the central government concurrent with the 300-hour rule.

The list of control variables includes human capital, demographic characteristics, duration dependency, regional unemployment rates, the municipality's size and framework conditions.³⁰ As evident from Table 3, most women were middle-aged and had at least one child less than ten years of age. About 75 % originated from the Greater Middle East, while 10 % came from the former Yugoslavia. The majority had received only secondary school education – at best. Only about 13 % had a university degree.

3.2 Methodology

I use an event-history model distinguishing between three competing risks: Long-term employment (>3 months), short-term employment (<=3 months), and other benefit schemes as defined above. Because some factors operate at the municipality level – as opposed solely to individual level – I employ a multilevel intercept model, where individuals are clustered within municipalities.

Following Allison (1982), I apply this model by estimating a multinomial logit regression (see also Steele et al., 1999). The data is therefore reorganised into a person-month file, in which unemployment spells have been expanded so that every spell contributes with several lines – one for each time point t . The dependent variable takes the value 0 in every record except in the last

³⁰ The information about framework conditions is from Ankestyrelsen (2007) who ordered the municipalities according to their general conditions for integrating low-skilled immigrants into their local labour market.

time period, which indicated exit state k . For right-censored cases, the last time period also takes the value 0. Consequently, I can model the conditional probability that an individual i in municipality j makes the transition into state l in time point t given that she remained unemployed until time point, $t - 1$. This depends on duration dependency ($\ln t$) and a vector of independent variables (X_{ijt}). Duration dependency is defined as the log of the elapsed time spent in unemployment up until t . In principle, some women may have been unemployed since 1991 (180 months). Apart from demographic and municipality control variables (see Table 3), X_{ijt} also includes sanctioning regime T_{ijt} , if the individual is subject to a sanction S_{ijt} , matching group M_{ijt} , the proportion subject to special labour market initiatives in the municipality I_{ijt} , the mayor's partisan belonging C_{ijt} and whether the municipality received extra resources R_{ijt} . Consequently, I can express the conditional probability of an individual i in municipality j , to make a transition to competing risk, l , given that she has remained $t - 1$ months in unemployment and depending on X_{ijt} , in the following way:

$$P_{ij}^k(y_{ij} = k | t, X_{ijt}, e_{ijck}, u_{jk}) = \frac{\exp(b_0^k + b_1^k \cdot \ln t + b_2^k \cdot X_{ijt} + e_{ijck} + u_{jk})}{1 + \sum_{l=1}^4 \exp(b_0^l + b_1^l \cdot \ln t + b_2^l \cdot X_{ijt} + e_{ijcl} + u_{jl})}$$

where e_{ijck} and u_{jk} represent the unobserved individual and municipality random effects assumed to be independent of observed characteristics, but associated with destination states. After testing both parametric and non-parametric techniques for modelling unobserved effects using the Bayesian Information Criterion (BIC) and in the Akaike Information Criterion (AIC), I chose the latent class approach with two classes or support points to control for unobserved heterogeneity at individual level (Agresti, 2002; Vermunt, 2002). This approach is closely related to the strategy of Heckman and Singer (1982; 1984) (see Vermunt, 2002).

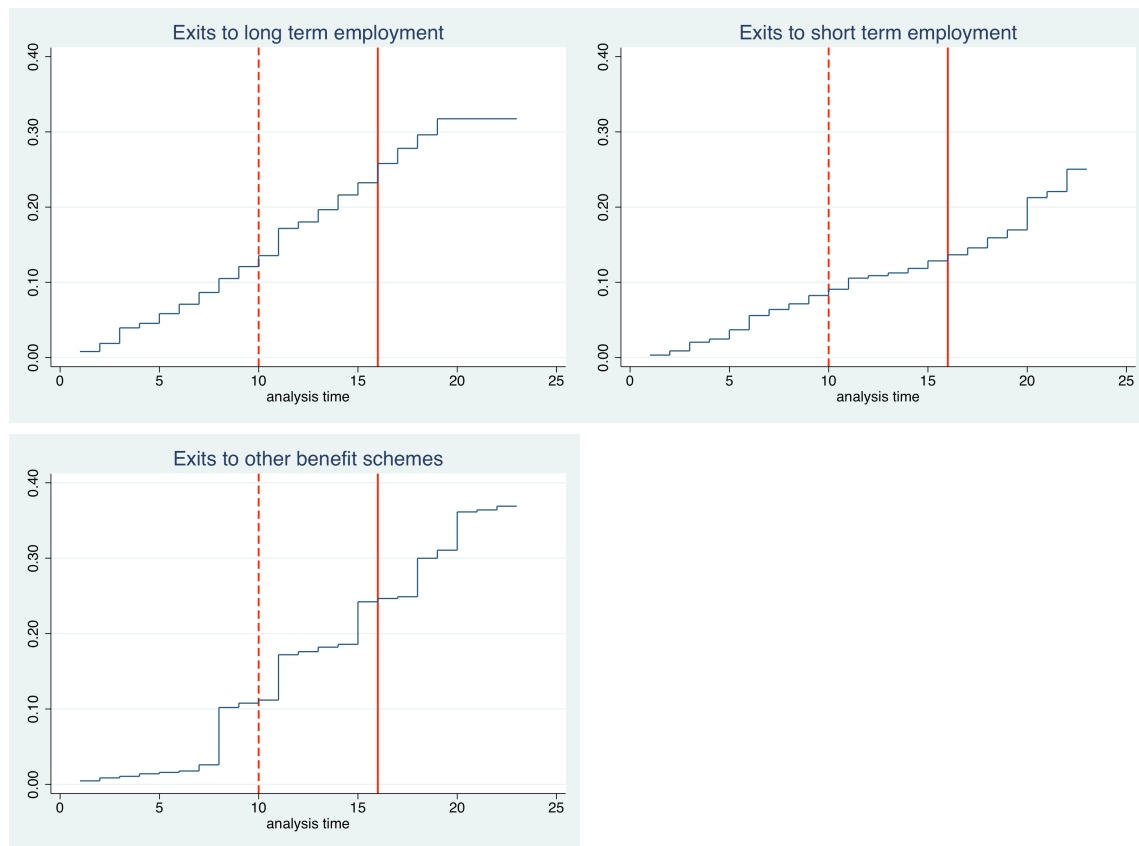
In order to test whether the effect of the 300-hour rule depends on matching group (M_{ijt}), the municipality's use of support measures (I_{ijt}), mayor's partisan belonging (C_{ijt}) and the resources of the municipality (R_{ijt}) as specified in the hypothesis, these variables are interacted with threat T_{ijt} and sanctioning S_{ijt} . The models are estimated using Latent Gold software (Vermunt and Madgison, 2005).

4. Empirical findings

4.1 Descriptive statistics

Figure 1 shows the cumulative hazard for the different exits. January 2006 to September 2006 is the period before the 300-hour rule was implemented. It is worth mentioning that the 300-hour rule was passed by the parliament in spring 2006. However, it is reassuring that we do not detect any anticipation effects from the immigrants on the likelihood of finding a job. This is probably because the public debate at the time was limited and most families did most likely not follow it because of insufficient integration into Danish society. From October 2006, the women would have begun receiving the notification letters from their local administration. The figures showing exits to short and long-term spells of employment indicate only minor increases in the job-finding rate. An exception is the quite dramatic increase in the hazard to short term employment towards the end of the period. This may suggest the 300-hour rule was having some effect, as many had their first due date extended because of illness or maternity leave. However, there was a marked increase in the transition to other benefit schemes starting from July 2006.

Figure 1: Cumulative hazards for different exits



4.2 Multivariate analysis

The next step involves analysing whether the probability of making these transitions has changed due to the 300-hour rule and if this effect varies according to matching group, the municipality's labour market integration initiatives, the mayor's partisan belonging and the resources of the municipality. I estimate three survival models (see Table 4). Model 1 is a simple model without any interaction terms; Model 2 presents results for the different matching groups and; Model 3 explores further whether municipality-level factors affected the outcome of the 300-hour rule. Characters in bold indicate a 5 % significance level and those in *italic* refer to a 10 % significance level.³¹

³¹ Table 4 only presents the results from the main independent variables. Nevertheless, the estimation includes the control variables from Table 3. These estimates can be obtained upon request.

Table 4: Results for the competing risk duration analysis*

| | Model 1 | | | Model 2 | | | Model 3 | | |
|--|---------------------|--------------------|-------------------|--------------------|---------------------|--------------------|-------------------|--------------------|-------------------|
| | Empl.>3 | Empl.<=3 | Other ben. | Empl.>3 | Empl.<=3 | Other ben. | Empl.>3 | Empl.<=3 | Other ben. |
| Intercept | | | | | | | | | |
| Class 1 | -3,330 (0,348) | -8,699 (12,450) | -4,936 (0,353) | -3,353 (0,350) | -10,532 (16,254) | -5,165 (0,359) | -3,388 (0,360) | -9,228 (16,480) | -5,580 (0,399) |
| Class 2 | -10,699 (14,403) | -2,802 (0,398) | -8,787 (2,090) | -9,771 (14,036) | -2,795 (0,399) | -11,266 (1,888) | -6,388 (2,456) | -2,899 (0,444) | -8,335 (1,088) |
| 300-hour rule | | | | | | | | | |
| Threat | 0,218 (0,077) | 0,077 (0,084) | 1,345 (0,080) | 0,261 (0,118) | -0,028 (0,120) | 1,633 (0,093) | 0,059 (0,173) | 0,232 (0,198) | 1,508 (0,215) |
| Sanctioned | 0,843 (0,258) | 1,983 (0,215) | -0,512 (0,398) | 0,880 (0,256) | 1,974 (0,205) | -0,439 (0,400) | 0,869 (0,253) | 2,046 (0,212) | -0,563 (0,395) |
| Matching group | | | | | | | | | |
| 1-2 | 1,491 (0,123) | 2,016 (0,145) | -0,645 (0,199) | 1,599 (0,157) | 2,173 (0,184) | 0,181 (0,284) | 1,503 (0,123) | 2,047 (0,148) | -0,611 (0,198) |
| 3 | 0,925 (0,080) | 0,457 (0,091) | -0,932 (0,087) | 0,931 (0,110) | 0,274 (0,137) | -0,158 (0,144) | 0,929 (0,079) | 0,446 (0,091) | -0,890 (0,086) |
| 4 | Ref. | Ref. | Ref. | Ref. | Ref. | Ref. | Ref. | Ref. | Ref. |
| Match1-2Threat | ... | ... | ... | -0,266 (0,231) | -0,255 (0,245) | -1,260 (0,386) | ... | ... | ... |
| Match3Threat | ... | ... | ... | -0,041 (0,146) | 0,333 (0,170) | -1,093 (0,173) | ... | ... | ... |
| Proportion subject to support measures | | | | | | | | | |
| Less than 10 % | ... | ... | ... | ... | ... | ... | Ref. (0,157) | Ref. (0,218) | Ref. (0,224) |
| 10-40 % | ... | ... | ... | ... | ... | ... | -0,004 (0,163) | -0,446 (0,206) | 1,046 (0,206) |
| More than 40 % | ... | ... | ... | ... | ... | ... | -0,186 (0,002) | -0,536 (0,169) | 1,265 (0,193) |
| Missing | ... | ... | ... | ... | ... | ... | 0,002 (0,130) | -0,237 (0,169) | 0,947 (0,193) |
| 10-40 % Threat | ... | ... | ... | ... | ... | ... | 0,166 (0,203) | 0,433 (0,243) | -0,569 (0,237) |
| + 40 % Threat | ... | ... | ... | ... | ... | ... | -0,066 (0,225) | 0,422 (0,249) | -1,024 (0,229) |
| MissingThreat | ... | ... | ... | ... | ... | ... | 0,228 (0,162) | 0,142 (0,197) | -0,643 (0,201) |
| Mayor's party | | | | | | | | | |
| Left wing | ... | ... | ... | ... | ... | ... | 0,012 (0,120) | -0,004 (0,161) | -0,318 (0,147) |
| Right wing | ... | ... | ... | ... | ... | ... | Ref. | Ref. | Ref. |
| LeftThreat | ... | ... | ... | ... | ... | ... | 0,034 (0,156) | -0,182 (0,182) | 0,360 (0,165) |
| Extra resources | | | | | | | | | |
| Yes | ... | ... | ... | ... | ... | ... | -0,149 (0,145) | -0,061 (0,181) | -0,501 (0,170) |
| No | ... | ... | ... | ... | ... | ... | Ref. | Ref. | Ref. |
| YesThreat | ... | ... | ... | ... | ... | ... | 0,135 (0,141) | -0,157 (0,167) | 0,311 (0,152) |

* Apart from the variables presented in Table 3, the analysis also control for municipality size and unemployment rate at municipality level.

4.2.1 The impact of the 300-hour rule mainly passed through the social welfare workers

The multivariate analysis corroborates the descriptive findings, namely that the 300-hour rule mainly resulted in transitions to other benefit schemes and thus the policy clearly affected social welfare workers (Hypothesis 3). In greater detail, clients at threat were more likely to be moved by their social welfare workers (Model 1). One could question whether the social welfare workers

moved their clients without a valid reason to protect them from the sanctions or if professional considerations were guiding their actions. As the data does not contain direct information from interviews with social welfare workers, it is not possible to provide a detailed and comprehensive answer to this question. However, the fact that the effect of the 300-hour rule varies across different matching groups, indicates the actions of social welfare workers were somewhat justified (see Model 3). After the introduction of the 300-hour rule, mainly women from matching-group 4 were moved to other benefit schemes; while those from matching groups 1,2 or 3 were less affected. However, prior to autumn 2006, there were no difference between the matching groups in the probability of being deemed unavailable for work. The introduction of the 300-hour rule therefore appears to have changed the judgment and priorities of social welfare workers at least in terms of who should be transferred to other schemes. The fact that social welfare workers more frequently moved women from matching-group 4 suggests that – in their view – many of these women had been in the social assistance scheme even if they did not belong there. This is also in line with the findings of Diop-Christensen (2012) who reports that the interviewed social welfare workers (despite being anonymous) denied that their decisions were based on non-factual considerations.

This effect on social welfare workers was particularly pronounced in municipalities headed by a left-wing mayor and which had received extra funds from the central government – as also expected from hypothesis 4 and 5. In line with Lipsky (1980), this indicates that the resources at hand and pressure from the political leadership are important factors, when social welfare workers prioritise their job tasks and make decisions (see also Winter, 2005). Nevertheless, it appears that left-wing municipalities and those, which had received extra funds, were behind with these job tasks – or in Lipsky's terminology, they had used more coping-behaviour in the past (see also Lipsky, 1980).

I also find evidence that municipalities, which in the wake of the 300-hour rule offered extra support in terms of counselling, training and internships, improved the overall outcome of the policy. The results even indicate that the 300-hour rule mainly had the expected positive effect on transitions to employment in municipalities, which provided such extensive support measures to the affected women (Model 3). Even though this appears only to pertain to transitions to short-term employment, these findings suggest that a comprehensive effort, which includes focused counselling and the relevant training/internships is a precondition for labour market integration of such marginalised immigrant women. Possibly, this variable should be viewed as a reflection of the

overall integration strategy of a municipality, as immigrants in municipalities with extended support measures were also less likely to be moved to other benefit schemes.

In summary, the results show that the impact of the 300-hour rule was highly dependent on the actions of social welfare workers. In particular, the threat effect on transitions to other benefit schemes provides undisputed evidence of such an unexpected mechanism. This is supported by the results from the municipality level variables (the municipality's labour market integration initiatives, mayor's partisan belonging and the resources of the municipality). However, it is crucial to mention certain reservations related to these macro-level variables. In greater detail, even if different control variables have been included at municipality level (municipality size, unemployment rate and framework conditions), it is impossible to completely rule out potential spurious effects of other variables, which could be correlated with the municipality's labour market integration initiatives, mayor's partisan belonging, and the resources of the municipality (e.g. employment structure).

4.2.2 The direct effect of the policy on the immigrant women

The strong economic incentives also influenced the unemployed immigrants – even if the extra efforts by social welfare workers appear to have been a necessary precondition. Model 1 indicates that being at threat increased transitions to employment spells that were longer than three months, but, perhaps surprisingly, not to short-term spells. These findings are somewhat contradictory to Hypothesis 1. However, the ex-ante effect on short-term spells may be 'hidden', as many probably worked a few hours during the week while still receiving social assistance and thus we would not observe these jobs in the data (see also Diop-Christensen, 2012). Furthermore, it is important to mention that the ex-ante effect in this case may have been reduced due to communication problems during the implementation phase (see Bjerregaard Bach and Larsen, 2008). Possibly, the most integrated women were both more likely to have understood the content of the letter from the municipality and to have obtained employment of longer duration, while the 'weakest' may not have understood the letter and thus did not react (see also Diop-Christensen, 2012).

Regarding the ex-post effect, the impact of the actual sanction appears to be larger than the threat of sanction. In other words, the 'stick' approach seems to foster labour market integration even for this weak group of unemployed social assistance recipients. However, this effect is more

pronounced for transitions to short-term employment, suggesting that the sanctioned women either consciously decided to work only the requested hours or because employment barriers prevented them from forming a real attachment to the labour market. The fact that only around 5 % of the covered social assistance recipients were sanctioned in the end – partly because many had been moved to other benefit schemes – and that sanctions mainly stimulated transitions to short-term jobs, imply that the economic value of the actual sanction is limited. It is of course possible to imagine that these short-term jobs could act as stepping-stones to a more permanent integration into the Danish labour market, but this is outside the scope of the current study.

Even though individuals from lower matching groups are generally more likely to have found a job than those from matching-group 4, I only find weak evidence that the effect of the economic incentives differs between these groups as anticipated from Hypothesis 2 (see Model 2). In greater detail, the impact of being at threat is similar for matching groups 1 and 2 as it is for 4. For matching group 3, on the other hand, being under threat does not only increase transitions to long-term employment, but also short-term jobs (significant at a 10 % level only). One explanation for this could be that those under threat in matching groups 1 and 2 were better able to find ‘long-term’ jobs on their own. Regarding the ‘weakest’ (matching-group 4), social welfare workers were probably more inclined to put in an extra effort to help them find a job, which may have resulted in a better job match. This is also in line with Diop-Christensen (2012). Women in matching-group 3 may, however, have received less support from their social welfare workers because they believed this group had more resources than matching-group 4. At the same time, individuals from matching-group 3 probably faced more severe employment barriers than those in matching groups 1 and 2. The interaction effect between matching group and sanction was not statistically significant and it deteriorated the fit of the model. As a result, it was not included in the final Model 2.

5. Conclusion

The aim of this study was to examine the impact of the Danish 300-hour rule – a policy that introduced a strict monitoring regime combined with a complete removal of social assistance for non-compliers – on transitions from unemployment to long-term employment, short-term jobs and other benefit schemes. The intention from the government was to 'make work pay' for non-Western immigrant women in receipt of long-term social assistance.

According to the descriptive statistics only around 4 % of the covered immigrant women were subject to the new sanctions. The reason for the few non-compliers is mainly related to the impact of the policy on the social welfare workers. In greater detail, the results suggests the 300-hour rule changed their evaluation patterns in terms of who should be moved to other benefit schemes – particularly for clients in matching-group 4 and in municipalities headed by a left-wing mayor and which had received additional funding.

The effect of the increased economic incentives on the immigrant women themselves was secondary, but largely confirming the expectations arising from job search theory. In other words, being at threat of losing access to social assistance (ex-ante effect) increased transitions to long-term employment. However, this positive effect on transitions to employment depended on the increased support of social welfare workers. In other words, the economic sanctions did not work on their own for this group on the very margin of the Danish labour market. Regarding the impact of the actual sanctions (ex-post effect), it stimulated transitions to employment, especially to short-term jobs. The effect of the actual sanction was considerably larger than the threat of losing benefit entitlements. Thus, the effect of the increased economic incentives were not neutralised by employment barriers even for this weak group. However, it remains unclear whether the effects of sanctions were short-term.

The results of this study should remind researchers and policy makers that mechanisms other than those stated by job search theory should be taken into consideration. Sometimes legislation is not implemented in the spirit intended by policy makers (principal-agent problem) or its design can affect the priorities of the street level bureaucrats. In this particular context, further resources, but also incentives for the social welfare workers to provide adequate support for these women earlier in their unemployment spell may be a more efficient solution. In this regard, we should bear in mind that only relatively few of the affected women found a job that lasted longer than three months, while the policy caused much stress to the women due to the employment barriers they faced. We should also remember that such severe sanctions have grave consequences for the families concerned; especially those with children (see also Diop-Christensen, 2012).

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